

# **The Impact of Strategic Implementation on the Employees and Contractors of the Hewlett-Packard Company**

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**Abstract**

Conducted within the global corporation of the Hewlett-Packard Company, (HP), this research examines employee and contractor responses to strategic implementation. The research environment is a relatively small UK group within the corporation that has continuously experienced significant change as new strategies were implemented. Employee and contractor responses to three separate cycles of change are analysed together with data drawn from the wider corporation by using a psychological contract framework, semi-structured interviewing, a research diary and secondary data from the literature and electronic sources. The research is essentially qualitative but draws on quantitative data where appropriate. A case study approach within an action research paradigm is the chosen methodology to allow consideration and triangulation of multiple sources of data relevant to the natural workplace setting.

The research has confirmed a change from old or original psychological contracts to new contracts where employees and contractors are more insecure in, and more cynical of, their employment. This change is perceived as a violation of their psychological contract and is causing employees and contractors to adopt a more mercenary approach to their employment with HP. The special bond between HP and its employees generated by the values and egalitarian working environment created by its founders has been broken by new leadership. Acquisition of the Compaq Computer Company has further impacted employees and contractors resulting in declining morale and increasing scepticism about its proposed benefits. Indeed the very legitimacy of the acquisition and the leadership of HP are being questioned as HP changes to a new form.

According to the founders, the values established that made HP successful in its first fifty years were expected to continue for at least another fifty years. This research shows how changing these values has collectively impacted employees and contractors resulting in a major threat to the continuing existence of HP in its present form.

## List of Contents

<b>List of Tables</b>	<b>Page</b>	<b>4</b>
<b>List of Figures</b>	<b>Page</b>	<b>4</b>
<b>Acknowledgments</b>	<b>Page</b>	<b>5</b>
<b>Chapter 1. Introduction</b>	<b>Page</b>	<b>6</b>
<b>Chapter 2. The Psychological Contract</b>	<b>Page</b>	<b>14</b>
<b>Chapter 3. The HP Organisation</b>	<b>Page</b>	<b>38</b>
<b>Chapter 4. Methodology</b>	<b>Page</b>	<b>74</b>
<b>Chapter 5. Cycle 1. The Internal Market</b>	<b>Page</b>	<b>99</b>
<b>Chapter 6. Cycle 2. Outsourcing</b>	<b>Page</b>	<b>119</b>
<b>Chapter 7. Cycle 3. Compaq Acquisition</b>	<b>Page</b>	<b>156</b>
<b>Chapter 8. Contribution to Knowledge</b>	<b>Page</b>	<b>191</b>
<b>Chapter 9. Contribution to Professional Practice</b>	<b>Page</b>	<b>203</b>
<b>Chapter 10. Conclusion and Recommendations</b>	<b>Page</b>	<b>211</b>
<b>Appendices</b>	<b>Page</b>	<b>219</b>
<b>Glossary</b>	<b>Page</b>	<b>249</b>
<b>List of References</b>	<b>Page</b>	<b>250</b>



## List of Tables and Illustrations

### List of Tables

Table 1.	Transactional and Relational Aspects of the Psychological Contract	Page	23
Table 2.	The Changing Social Contract	Page	25
Table 3.	Sources of Experienced Violation	Page	27
Table 4.	HP Strategic Change Office, Cultural Due Diligence Study Findings	Page	161
Table 5.	HP Values	Page	163
Table 6.	Cultural Integration	Page	164
Table 7.	Expected Effects of Sale	Page	166
Table 8.	HP Financial Performance Pre and Post Merger	Page	225
Table 9.	HP Revenue and Operational Earnings First 3 Quarters of FY 2004	Page	226

### List of Figures

Figure 1.	Three-tier Model of the Psychological Contract	Page	20
Figure 2.	UK & Eire Temperature Check Results	Page	61
Figure 3.	HP 10 Year Stock Price and Major Event Timeline	Page	70
Figure 4.	Two-tier Model of the Original HP Psychological Contract	Page	192
Figure 5.	Two-tier Model of the New HP Psychological Contract	Page	193
Figure 6.	Two-tier Model of the New HP Contractor Psychological Contract	Page	195
Figure 7.	Stock Price Performance Last 5 Years of Traditional HP	Page	224
Figure 8.	Stock Price Performance First 5 Years of New HP	Page	224
Figure 9.	Stock Price Performance First 5 Years of New HP Compared with Primary Competitors	Page	225

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## Chapter 1

### Introduction

#### Background to the Research

Hewlett-Packard Company, (HP) the quintessence of corporate ethics and practice or an archetypal example of espoused theory and theory in use (Argyris and Schön 1978)? Accolades for HP are numerous and varied but include, an “excellent company” (Peters and Waterman 1982:20), is viewed as a “role model” for other companies (Hewlett 1990), “a truly remarkable company” (Packard 1995:i), a “visionary company” (Collins and Porras 1994:2), “one of the most influential, admired partnerships in business history” (Burrows 2003:49), and, “the Mississippi River of corporate America: an enormous force that just kept gathering strength as it went along” (Anders 2003:6). Can a company really be that good? Does it remain that good, almost a paragon of virtue in the corporate world, or is the truth different from the perceived reality? To answer these questions and a central research question this research has been conducted over a period of three years in a relatively small part of the HP organisation but with access to data from the wider HP. Effectively I started researching HP in 1993 when preparing for commencement of an MBA degree course which examined the impact of organisational change on HP employees in the UK Sales Region and while this research is now embedded in its time, it is a useful data source for understanding how HP has evolved. The research has been conducted during a turbulent time in the corporate world with many changes that have particularly affected employees and their relationship with their employers as summarised below,

*“In the past two decades, strategic re-orientation or focus on core competencies has resulted in job displacement with most of the largest employers in the UK, Australia, USA, Canada and New Zealand, through compulsory retrenchments, early retirements, voluntary redundancies, transfer of staff to services providers and redeployment of managerial and specialist staff, resulting in the steady increase of contract, part-time and casual work” (Kakabadse and Kakabadse 2000:697).*

This impact on employees and contractors is central to the research as they have to adapt to the ever changing business models and employment relationships noted above. The research is conducted within the management



discipline of Change Management which is a controversial term according to Mintzberg et al. (1998) who describe it as an oxymoron. Nevertheless change management is the discipline within which strategic implementation occurs as this necessarily leads to changes because of the translation of strategy into organisational action (Johnson and Scholes 1999). Now the overall background of the research is established the research question is now identified.

### **Research Question**

This research seeks to understand how HP employees and contractors respond to strategic implementation. The research does not focus on a specific problem but seeks to identify and explain HP employer, employee and contractor relationship changes resulting from three specific cycles of change caused by strategic implementation. The three cycles of change analysed are:

1. implementation of an internal market,
2. outsourcing and
3. the acquisition of Compaq Computer Company.

The central research question is, “how does the evolving relationship between HP and its employees and contractors impact on the individual in times of strategic change?” Also central to this research is how employees and contractors respond to and perceive changes in the HP corporate creed or statement of philosophy known as the HP-Way and the core ideology of the company (Packard 1995; Collins and Porras 1994; David 1993). This immediately raises further questions of why this is important and what contribution to knowledge is planned from the research? The original HP, according to works such as those noted earlier in the introduction and my own experience, was successful because of the working environment, the values created by its founders and the way it engaged its employees. This example of reciprocity between HP and its employees and the atmosphere of trust created by HP’s founders contributed to a business model that was successful for decades.

With the hiring of a new CEO external to HP with different values this successful business model may be threatened. This research further seeks to understand why the previous HP business model was successful, particularly from the employee and contractor perspective, then analyses the changing HP business



model to identify whether the new model will continue this success or lead to the downfall or break-up of HP. The planned contribution to knowledge is to understand and analyse employee and contractor responses to strategic implementation within a company that is evolving into a different form and to identify any consequential risks arising from implementation. Therefore, the heart of the research is how employees and contractors of HP respond to changes in their working environment, how they are engaged by HP and reciprocate this engagement. Resulting from the research, recommendations for improving employee and contractor management in a changing business environment will be presented from both academic and management practitioner perspectives. In summarising the above, the following are the objectives of the research.

1. Investigate why HP was successful historically and whether this will continue.
2. Identify and analyse changes in the HP working environment resulting from strategic implementation.
3. Analyse how employees and contractors are responding to these changes.
4. Recommend improvements in employee and contractor management from both academic and management practitioner perspectives.

The framework for analysing the research is the psychological contract which is defined, justified and analysed in chapter two. But what justification is there for conducting this research?

### **Justification for the Research**

The justification for the research additional to my personal interest in the subject areas is that the internal market, outsourcing and the acquisition presented a unique opportunity to gather data on the effects on HP employees and contractors from strategic implementations that were unlikely to be repeated in the same way or in the same circumstances within HP. Further justification is shown by the changes in the working environment noted earlier by Kakabadse and Kakabadse (2000) and from Moynagh and Worsley (2001:5) “many people sense that we are in the midst of a social earthquake, and that paid work is at the epicentre.” This change is causing the experience of work to feel different



and insecure (Moynagh and Worsley 2001) and thus affects how people engage with their employer.

My position as a HP manager within the research area gave me access to HP employees and contractors who all expressed a willingness to help with my research. Also as an action research methodology was employed (Greenwood and Levin 1998), all of my HP team helped with the research before three of them accepted voluntary severance from HP during a cycle of downsizing. A further justification was the richness of data (Alvesson and Sköldbberg 2000) that could be accessed from both employees and contractors during periods of significant change. However, it should be recognised at this early stage that this research is based on a relatively small group of employees and contractors (approximately 500) and while a significant amount of data is gathered from the wider HP, findings may not be representative of HP generally.

## **Methodology**

This research has been conducted over three years using a qualitative approach (Silverman 2000, 1993; Marshall and Rossman 1999; Miles and Huberman 1994) and triangulated (Alvesson and Sköldbberg 2000; Begley 1996) by using semi-structured interviewing (Gillham 2000 b), a research diary (Silverman 2000) and secondary data from the literature and other electronic sources such as internal HP web sites and extranet sites (Marshall and Rossman 1999). This approach has been deliberately employed to ensure the research is viewed by both professional and academic readers (Weiss 1994) as rigorous and valid (Schwandt 2001). The research design is based on an original research proposal submitted to Bournemouth University that has been modified as the research progressed. Essentially, employee and contractor responses to strategic implementation have remained central in the research cycles and this has been continued. The original proposed methodology of action research has been followed through all three cycles although individual contributors varied as they left the HP organisation.

A case study approach has been utilised for this research as “it is an empirical inquiry that, investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin 1994:13). Further definitions of the case study approach and justification for the research methodology are discussed in the methodology



chapter. As with all research cycles, action research is the chosen methodology therefore the research structure is a case study approach within an action research paradigm that seeks to answer a specific research question arising from an original research proposal. This concludes a brief description of the thesis methodology discussed in more detail in chapter four and the thesis structure is outlined next.

### **Thesis Structure**

Following this introduction a literature review of the psychological contract is presented in chapter two which examines the content, structure and justification for using this as a framework for the analysis. Other frameworks which were investigated and subsequently found to be not suitable for the research are also discussed together with reasons for their exclusion. Chapter three focuses on the history and evolution of HP from an original business idea through to its current form as a large corporation with a varying market capitalisation of approximately \$50 to \$72 billion and 140,000 direct employees. The psychological contract is used as a framework to understand many of the HP employer/employee and contractor relationship attributes identified in this chapter. Changing HP values, as the corporation continually evolves, are also analysed using this framework. These two chapters set the background and context for the research.

Chapter four outlines the methodology used in this research and discusses the reasons for the choice of research methodology used compared to other available methodologies. Philosophical, ethical and other issues such as validity, authenticity and truth (Schwandt 2001) are also analysed and discussed in this chapter to ensure the research process is viewed by the reader as rigorous and robust. My methods of data collection, coding and triangulation are presented and justified both to test for potential bias and ensure the rigour noted for the issues above is continued throughout the whole research process.

Chapters five, six and seven contain the three cycles of research data noted earlier and encompass the resulting engagement and reciprocal effects on the relationship between HP, its employees and contractors. Chapter five focuses on the implementation of the internal market within HP UK and how HP employees and contractors responded to this strategic implementation. Chapter six examines the continuing process of outsourcing within HP and how

employees and contractors responded to this particular business model. Chapter seven examines the acquisition of Compaq Computer Company which links strongly with the evolution of HP analysed in chapter three. The analysis again focuses on employee and contractor responses to strategic implementation. All findings in these chapters are related to the psychological contract framework and examined accordingly.

Chapter eight examines the findings from an academic perspective and any contribution to knowledge is identified and presented.

Chapter nine examines the findings from a management practitioner perspective and outlines any changes made in my previous HP managed areas during the research process. Results from these changes are examined for effectiveness and generalisability.

Chapter ten presents the conclusions and suggests where further research in the subject areas is appropriate based on identified gaps in the knowledge or areas where insufficient data is available. Recommendations for improved management effectiveness and any contribution to knowledge from a management practitioner perspective are also made in the subject areas. Finally in this concluding chapter I reflect on the research process and discuss my identified and resolved mistakes and process weaknesses that I hope will help other researchers to structure their research approach and data collection and thus avoid experiencing my quantity of rework.

Additional relevant information is presented in the appendices to substantiate or expand on data presented in the previous chapters. It is important to outline the boundaries or scope of the research at the start and this is addressed now.

### **Research Scope**

As noted earlier, the research draws on data from the wider HP. This approach is justified because HP employees and contractors access this data electronically or through other media and many of them are therefore aware of what happens at the corporate level within HP and this is assumed to impact on their perceptions of the company and thus the research. The research commenced by examining one functional group, the UK Logistics Group, then expanded to include as many functions as time and resources permitted in the



UK Real Estate and Workplace Services function, REWS. REWS was chosen as the research area because of my role within the organisation, which is defined later, and the willingness of my team and colleagues to participate in the research. As REWS is a relatively small group in the context of the HP Company it is important to define its function.

## **HP UK REWS**

When research commenced REWS was known as UK Support Services then changed to UK Workplace Solutions, WPS, which would be more commonly known as Facilities and Real Estate in other organisations and historically in HP. As is common in many HP organisations, groups or departments change their designation frequently and REWS is no exception. An example of this changing of designation is the UK Logistics Group which changed designation at least six times in fifteen years as it realigned with differing groups. Areas researched include logistics, security, space planning, cleaning, building and plant engineering and printing, all defined by HP as non-core activities and suitable for outsourcing. While all of the above functions are outsourced, the degree of HP control varied during the course of the research as further outsourcing was implemented. This entailed the transfer of additional roles from HP to outsourced service providers. The current UK organisational structure reports into the European, Middle East and Africa, (EMEA) REWS Manager and is split into functional and delivery management areas. Functional management controls the contractual and financial areas while delivery management controls the day-to-day operational elements.

Some areas of REWS were excluded from the research such as catering and landscaping. The reason for this is that HP contract managers felt these areas were particularly sensitive due to potential contract changes and I obviously respected their guidance and views on this. While this additional data would have been useful there should be minimal impact on the validity of the research (Schwandt 2001) as most of the REWS contractual areas were examined. My position within REWS originally involved the functional management of the UK logistics function but was expanded to include security and the print function during the research period. My employment with HP terminated during January 2003 but I was able to complete the interviewing process and gather a final burst of data before I left. The reasons for my termination are discussed later as they link with the strategic implementation changes but it is important to state now

that I am more conscious of the potential for bias because of my termination. My position now therefore is a former HP manager, current shareholder and HP traditionalist who lived and promoted the HP-Way. Does this mean I oppose change? No, change is endemic in HP and a constant expectation as the HP-Way encourages constant change but only if it makes a *contribution* (Packard 1995:96). This completes the introduction to the research which is summarised below.

### **Summary**

This chapter has introduced the thesis to the reader and outlined the research background, structure and scope. Justification for the research has been presented as a unique opportunity to gather rich data in situations unlikely to reoccur within HP and as a result of significant change in the workplace. A brief description of the methodology employed and research approach is outlined and clarified as a case study approach within an action research paradigm that seeks to answer a specific research question arising from an original research proposal. The research has been defined as essentially qualitative but triangulated from multiple sources to ensure the rigour and validity required. We now move on to chapter two to understand the framework of the psychological contract.

## Chapter 2

### The Psychological Contract: A Framework for Analysing HP

*“The relationship between employees and their employers has been conceptualized as involving a psychological contract” (Roehling 1997:204).*

#### Introduction

The psychological contract was chosen as a framework to help analyse the impact of changes on HP employees and contractors and to try and make sense of any relationship changes identified. This chapter seeks to justify this choice of framework and analyses the structure and content of the psychological contract. The psychological contract as an analytical tool is evolving as more researchers use it as a framework for understanding their data (Guest and Conway 2002, 1999; Marks 2001; Martin et al. 1998; Roehling 1997). Consequently there are concerns relating to the potential lack of academic rigour in using this concept (Marks 2001) and the detachment from its historical grounding in clinical psychology (Meckler et al. 2003). These concerns will also be addressed together with how the psychological contract is evolving and how it may develop in the future (Sparrow 2000). Defining the framework is crucial to understanding how the relationship between HP and its employees and contractors is evolving before identifying any subsequent impacts in the three cycles of research. Therefore the framework is presented before analysing the history of HP as the psychological contract is important in understanding how HP values developed and how HP engaged its employees historically.

Other frameworks were considered and rejected for reasons of potential lack of rigour or too narrow perspectives but this is discussed later in the chapter. This chapter also analyses the failure or violation of the psychological contract (Rousseau 1995) to further understand individual impacts on employees and contractors. Before continuing with the analysis of the psychological contract it is important to understand the linkage of organisational strategy as implementation translates strategic plans into organisational action from which psychological contracts arise (Rousseau 1995).



## **Strategy**

It is not proposed to undertake an in-depth analysis of business strategy as this is beyond the scope of this thesis. However, to understand the linkage with psychological contracts requires identification of organisation types to analyse how implementation occurs from the employee perspective. For example, Rousseau (1995) has identified and described four types of contemporary business strategies based on the work of Miles and Snow (1984). These strategies are labelled as, Defender, Prospector, Analyser and Responsive (Rousseau 1995). Defender firms tend to be well established with strategies of incremental innovation, maintaining market share and interpreting the business environment as stable. These firms are characterised by strong cultures with extensive socialisation of employees, high employee retention rates with long term careers, top managers working their way up from lower levels and employees manifesting loyalty and commitment to the organisation's values.

Prospector firms interpret the business environment as unstable or dynamic and adopt strategies of continual innovation in new products and services. They are characterised by low employee retention rates, little socialisation as employees are viewed as constantly replaceable and are focused on short-term tangible outcomes. Analyzer firms are a hybrid of defender and prospector firms with attributes from each shown in different strategic business units, (SBUs). Analyzer firms develop from defender or prospector firms and may pursue either strategy. They are characterised by an internal labour market but there are tensions caused by different SBUs pursuing different strategies which impact on employees, for example, varied employment contracts causing mixed messages to employees.

Responsive firms are seen by their managements as operating in changing environments where resources are viewed as scarce. They are characterised by increasingly shorter product life cycles, teamwork within and between SBUs and retention of skilled people. Responsive firms tend to operate with a core of skilled employees and may adopt a two-tiered approach of core employees and a permanent pool of temporary staff. HP is identified by Rousseau (1995) in her book as a responsive firm because of this use of the two-tiered approach. Arising from these differing strategic approaches are Human Resource (HR) strategies that vary according to the business strategy and these are presented next.



Defensive firms tend to have a “make oriented” HR strategy where extensive employee training and socialisation create a stable, long-term workforce with organisation specific skills (Rousseau 1995:187). Prospector firms, in contrast, tend to have human resource strategies that focus on recruitment as employee tenure is short-term resulting in a strategy of continually buying in new talent (Rousseau 1995). Analyzer firms have a mixture of the HR strategies identified for the defensive and prospector firms and the tensions already noted earlier create difficulties for HR as SBUs have differing goals, values and incentive structures (Rousseau 1995). Responsive firms are characterised by a teamwork and core employee retention HR strategy which tends to be long-term for core employees and short-term for temporary employees (Rousseau 1995). The foregoing is functionally pure as it can be assumed that most companies would have a mixture of all the identified attributes, for example in HP it can be argued based on my experience that manufacturing would tend to have a bias toward responsive type attributes whereas support activities such as REWS would have a bias toward defender type attributes. However, it is important to establish some differentiation between business strategies to understand the resultant HR strategies from which psychological contracts arise to support the business strategy (Rousseau 1995). Now the development path of business strategy to HR strategy to psychological contract has been identified the history of the psychological contract is examined next to understand its origin.

### **History of the Psychological Contract**

Argyris (1960) is credited as the earliest proponent of this concept defined as expectations of employers and employees that operate beyond the standard contract of employment (Smithson and Lewis 2000:681). Independently from Argyris, Levinson et al. (1962) used the term psychological contract as an “outgrowth” from their research (Meckler et al. 2003:220). There is evidence of earlier references of the notion of a psychological contract (Beaumont and Harris 2002) and suggested conceptual underpinnings with Barnard’s (1938) theory of equilibrium because of the exchange nature or reciprocity of the psychological contract (Meckler et al. 2003; Roehling 1997). Earlier links traceable to Greek philosophers, as an extension of social contract theories, and other links to seventeenth and eighteenth philosophers such as Hobbes and Locke are also suggested by Roehling (1997). But what is a psychological contract and how can it be defined for the purposes of this research?

## Definition

*The psychological contract is a “popular metaphor used to describe an employee’s relationship with his or her organisation” (Pearce 1998:186).*

*“Historically, each researcher or writer has defined the PC construct in some way that she or he feels is suitable, or has adopted one of the existing definitions, with little or no explicit consideration of competing views of the construct” (Roehling 1997:214).*

Roehling’s (1997) view above has already complicated any definition as it implies that any operational definition is dependant on the views, and perhaps biases, of the individual researcher. Indeed, Roehling (1997:214) states in his summary observations title that psychological contracts are “all things to all people.” This view is also supported by Smithson and Lewis (2000:682) who state “different people have different perceptions of the psychological contract, even within the same organization,” and Guest and Conway (2002:22) “there is no clear consensus on the definition of the psychological contract.” Also there is some evidence of pseudo or quasi psychological contracts in the literature, for example, psychological pacts, psychological compacts and moral contracts, (Mullins et al. 2001) and social contracts (Kakabadse and Kakabadse 2000), but essentially they all focus on the relationship between employer and employee.

The research focus itself has changed over time from early definitions of mutuality in expectations between the two parties of the exchange relationship to the recent research focus of definitions of the mutuality of obligations between employer and employee (Coyle-Shapiro and Kessler 2000). Starting from this apparently nebulous position it is important to clarify my position to ensure my research is viewed as both rigorous and informed. Also, accepting that definitions differ within organisations, within individuals and by individual researcher and that psychological contracts change over time (Scholarios et al. 2003; Rousseau 2001) it is important to gain clarity of how a psychological contract framework can be used as an effective analytical tool or framework for interpreting my data (Guest 2004; Guest and Conway 2002). Rousseau’s (1995, 2001:512) definition is probably a useful starting point.



*“Psychological contract comprises subjective beliefs regarding an exchange agreement between an individual and, in organizations typically, the employing firm and its agents.”*

This exchange agreement also referred to as reciprocity (Rousseau 2003; Marks 2001; Millward and Brewerton 1999) is a mental model or schema (Rousseau 2003; Pugh et al. 2003) that comprises beliefs about the exchange relationship between employer and employee (Rousseau 2003; Pugh et al. 2003). These beliefs operate at both the conscious and unconscious level (Gabriel and Carr 2002; Schalk et al. 1998) or are more or less conscious and have both verbal and non-verbal elements (Rousseau 2001). Another definition by Flood et al. (2001) in their study of knowledge workers emphasises the reciprocal and obligatory nature of psychological contracts.

*“A psychological contract emerges when one party believes that a promise of future returns has been made and thus an obligation has been created to provide future benefits. These promised future returns on the part of the organization engender expectations among employees” (Flood et al. 2001:1154).*

Evidence of this reciprocal and obligatory nature of psychological contracts in HP is shown by the fifth objective of the HP-Way which includes the provision of job security in exchange for performance and is discussed further in the next chapter. A further definition by Guest and Conway (2002:22) confirms this reciprocal and obligatory nature at the perceptual level, “the perceptions of both parties to the employment relationship-organisation and individual-of the reciprocal promises and obligations implied in that relationship.” From a functional perspective psychological contracts help employers predict the kinds of outputs they will get from employees and they help employees predict what kind of rewards they will get from investing time and effort in the organisation (Hiltrop 1996). However, these definitions tend to exclude the psychological roots of the psychological contract.

*“Psychology informs our understanding of the psychological contract, and the employment relationship generally, in innumerable ways” (Rousseau 2003:229).*

The main roots of the psychological contract are in clinical psychology according to Meckler et al. (2003) who continue with their definition of “an agreement between management and an employee that the employee will be placed in situations where his or her needs for affection, aggression, dependency, and achievement of ego ideals can be adequately met” (2003:217-218). However, these four psychological needs are challenged by Rousseau (2003), for example, is aggression a human need? If aggression is learned or gender-specific then it is not a *general* human need (Rousseau 2003:232). Rousseau continues with criticism of the narrow view of the unconscious asserted by Meckler et al. (2003) because of the complexity of human motivation at the unconscious level (Rousseau 2003). Clearly definition of the psychological contract is extremely difficult and complex but some structure is emerging. The evidence so far suggests the psychological contract operates on both conscious and unconscious levels, is grounded in clinical psychology, is an exchange or reciprocal relationship between employer and employee and is a mental model or schema that contains subjective beliefs about the exchange relationship between employer and employee. Based on the above I propose the following definition of the psychological contract,

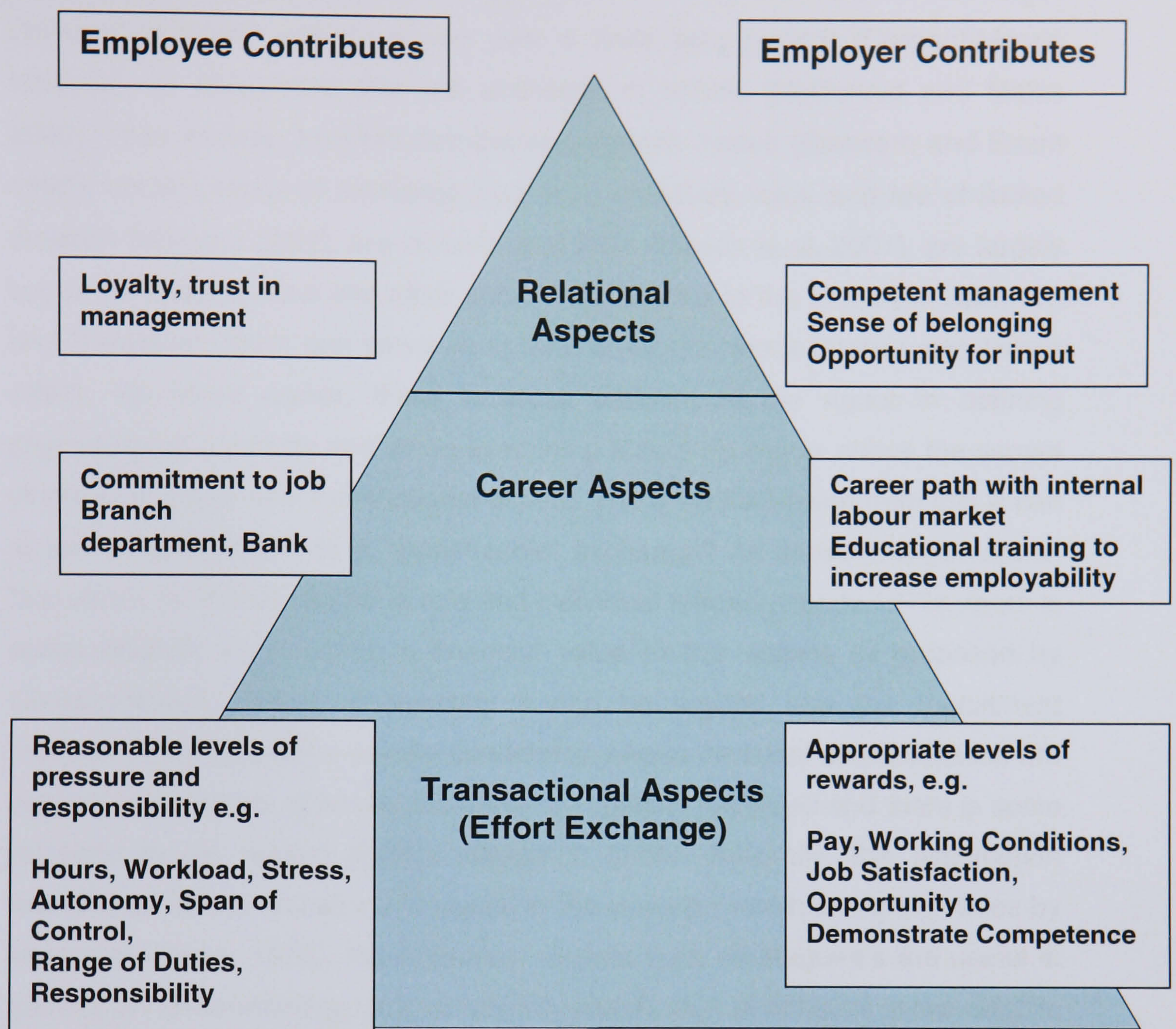
*a psychological contract is the totality of expectations and obligations implicit in the exchange relationship between employer and employee.*

But this is inadequate to operate as a framework for interpreting my data as more comparative detail and attributes are required. The focus now moves to defining the specific components of the psychological contract to construct an analytical framework and relate this to the HP-Way.

### **Psychological Contract Components**

To begin identifying the components of the psychological contract it will be useful to present a model that encompasses these components and gives a “snapshot” of the concept. In examining the literature there appears to be very few models available, however an example of a model is shown below.





**Figure 1. Three-tier Model of the Psychological Contract. Source: Maguire (2002:170)**

While this particular model is focused on a bank study the attributes are drawn from the wider literature and from the study itself (Maguire 2002). Significantly, the author has added a third tier of career aspects which differs from the literature that focuses on transactional and relational aspects, for example, (Rubery et al. 2002; Rousseau 2001; Herriot et al. 1997). Before examining the career aspect in more depth it is important to understand transactional and relational aspects.

### **Transactional Aspects**

Transactional aspects of psychological contracts relate to the more immediate reciprocal obligations of employees and employers such as the components



noted in Figure 1 above and what may be described as “monetizable exchanges between employer and employee over a finite time period” (Chrobot-Mason 2003:23), or obligations that are economic in nature (McDonald and Makin 2000). They include, tangible discrete and specific issues (Blancero and Elram 1997), contain terms of exchange that have monetary value and are of limited duration (Maguire 2002), are discrete and finite (Inkson et al. 2001), are largely based on remuneration and other short-term benefits to the employee (Millward and Brewerton 2001) and serve short-term employer needs (Hallier and James 1997). As noted earlier, there is some criticism of the rigour in defining psychological contracts and when examining Maguire’s model above the aspect of stress appears as a transactional aspect. The question arising from this is can stress be categorised as a “monetizable” exchange? As stress is a perception that varies by individual and is role and individual related (Handy 1976), there is some difficulty in assigning a financial value to this aspect as proposed by Chrobot-Mason (2003). Conversely it can be argued that the recruitment process of organisations selects candidates whose personal characteristics are aligned to the stress of a role, are therefore suitably rewarded and there is some structure in the reward system related to stress. Naturally, this assumption would then lead to questions of equity in the reward system as stress varies by individual (Handy 1976). Nevertheless, models such as Maguire’s are useful in gaining an understanding of transactional psychological contract terms despite apparent conflicts of definition.

Many of the transactional aspects identified by Maguire (2002) feature in contracts of employment, for example, the “common law duties of the parties in the employment contract” (Thomason 1988:121). This also differs from the Smithson and Lewis (2000:681) definition noted earlier of expectations that operate beyond the standard contract of employment. These transactional aspects may also be described as maintenance or “hygiene factors” as proposed by Herzberg (Herriot et al. 1997, Beach 1985:300-302). However there is some criticism of Herzberg in terms of over-simplifying the complex world of work (Beach 1985) but it can be argued that any framework produced to understand complex human interaction will be subject to omission. Research has also indicated that hygiene or transactional aspects tend to be viewed as more important than relational aspects by employees while employers tend to take the opposite view, perhaps in attempting to mask inadequacies in the transactional contract (Herriot et al. 1997).

To summarise transactional aspects of the psychological contract for my analytical framework I propose to adopt the following working definition. *Transactional aspects are those aspects that can be reasonably prescribed, controlled and quantified by an employer and form the basis of any reciprocal obligations between employer and employee.* We now move on to understanding the relational aspects of the psychological contract.

### **Relational Aspects**

Relational or socio-emotive (Beaumont and Harris 2002) aspects of the psychological contract are characterised by “more generalized agreements which seek to create and sustain a more long-term relationship involving both monetizable and non-monetizable exchanges” (Hallier and James 1997:224). This differs from the relational aspects in Figure 1 above where the identified aspects would be difficult to quantify in economic terms, for example, how can a specific financial value be quantified for opportunity for input? However it can be argued there is a financial consequence for employers who eliminate or restrict opportunity for input despite difficulties in quantification. There are also problems in distinguishing between some transactional and relational aspects according to some authors. For example, the “hybrid contracts” identified by Inkson et al. (2001:281) and,

*“it is possible that psychological contracts for a significant number of employees may concurrently contain transactional and relational elements that may not be mutually exclusive” (Coyle-Shapiro and Kessler 2000:906).*

This can also be linked to the types of business strategies noted earlier where analyzer firms have a mixture of HR strategies (Rousseau 1995). In examining relational aspects there are similarities and differences in various authors’ definitions. For example, open time-frames, are dynamic and emotional involvement (Blancero and Ellram 1997), trust, respect and loyalty (Beaumont and Harris 2002), developmental opportunities and long term career paths (Chrobot-Mason 2003), socio-emotive in nature and depending on trust and reciprocity (Herriot et al. 1997), lengthy time-frames, emotional attachment, the promise of long term security and career development (Inkson et al. 2001) and personal commitment and trust (McDonald and Makin 2000). Clearly there are many aspects in a relational psychological contract but they all appear to be of a



perceptual and emotive nature and difficult to quantify from an economic perspective which tends to contradict Hallier and James (1997:224) view that some aspects are “monetizable.” McDonald and Makin’s (2000) study primarily based on Rousseau (1990), Robinson et al. (1994), Robinson and Morrison (1995) and Herriot et al. (1997) is informative because it identifies transactional and relational aspects and this is reproduced in Table 1 below.

<u>Transactional Aspects</u>	<u>Relational Aspects</u>
Competitive salary	Recognition of contributions to the organization
Benefits	Training
Pay linked to performance	Job security
	Career development
	Recognition and feedback on performance
	Fairness and justice in personnel procedures
	Consultation and communication with employees
	Support with personal or family problems
	Promotion opportunities

**Table 1. Transactional and Relational Aspects of the Psychological Contract. Source: McDonald and Makin (2000:87).**

The relational aspects from this table can be related to the HP-Way, shown in the next chapter, as they are either specified or implied. When comparing Table 1 with Figure 1 it is clear that differences exist between them reinforcing the earlier concerns of a lack of rigour in psychological contract definitions. However, these aspects, while not exhaustive, are useful indicators of the content of psychological contracts and will help define a working definition of a relational contract. McDonald and Makin’s (2000) study is particularly relevant for this research as it is one of the few that is focused on permanent and temporary employees using a framework of the psychological contract. Their findings will be particularly useful for comparison with my findings together with the work of Millward and Brewerton (1999) who focused their study on contractors and employees. Returning to a working definition of a relational psychological contract, after reviewing the aspects identified above I propose



the following, *a relational psychological contract contains those aspects or obligations in the employment relationship that are difficult to quantify economically, tend to be excluded from the employment contract, are long-term, socio-emotive and perceptual in nature and are career focused.* This working definition can be assumed to include the HP-Way as a relational psychological contract between HP and its employees and this is discussed in depth in the next chapter. I have included career focused as relational despite Maguire's (2002) separation of this aspect in Figure 1 and my reasons for this are discussed next.

### **Career Aspects**

Maguire's (2002) study was focused from a career perspective after a restructuring in a bank environment and while it may have been appropriate to separate this aspect from transactional and relational aspects of the psychological contract for this particular study, there is no identified value in separation for my psychological contract framework. For example, career development, training and many of the aspects relating to this are contained in the relational aspects identified by McDonald and Makin (2000) in Table 1. Essentially Maguire's (2002) model can be described as fit for its purpose from a career perspective though I would criticise the positioning of some aspects in the model. For example, I would categorise stress and the opportunity to demonstrate competence as relational rather than transactional. However, a clear message from Maguire's (2002) study is that the psychological contract is changing. Relational aspects are decreasing in importance to employers as they restructure their organisations and focus on short term outcomes (Maguire 2002), and this change is discussed next.

### **The Changing Psychological Contract**

Evidence of a new psychological contract is contained in Table 2 below from a paper by Kakabadse and Kakabadse (2000) that focused on the outsourcing paradigm. Significantly they have labelled the contract as a *social contract* rather than a psychological contract. This can be explained by the following statement from their paper,

*“it should be pointed out that the extent to which formal, explicit agreements or more implicit, often vague, understandings reflect an authentic employment relationship between two parties, is a*



*controversial, value-laden issue. Moreover, it is debateable whether people's values and expectations can be adequately identified, let alone articulated, by organisational members and incorporated in a legitimate fashion into the explicit terms of a formalised psychological contract" (Kakabadse and Kakabadse 2000:696-697).*

Despite their reservations Kakabadse and Kakabadse (2000) have essentially captured many of the aspects of psychological contracts, both transactional and relational, shown in Table 2 below. For example, employment and union based bargaining would be defined as transactional with the remainder of the aspects identified in the old social contract column being relational. However there is clear evidence here of the decreasing importance of relational aspects (Maguire 2002) as indicated by reducing job security and the increasing individual self-reliance of employees in the new social contract column.

<b>Old social contract</b>	<b>New social contract</b>
Employment	Employability
Permanent workforce	Externalised workforce
Job security	Career resilience
Career structure within organisation, managed by employer	Career portfolio within market, employee's responsibility for assessing and designing their own careers
Organisation-reliant employees	Self-reliant employees
Union based bargaining	Individually based bargaining
Loyalty to employer	Loyalty to self and profession – specialisation
Commitment	Flexibility and performance
Limited availability of information to employees	Disclosure of information to employees
Employer assesses training needs and provides training and development	Employer provides tools, open environment and the opportunities for assessing and developing skills Individuals empowered to hone, re-direct and expand their skills to stay competitive in the job market

**Table 2. The Changing Social Contract.**

**Source: Kakabadse and Kakabadse (2000:696).**



In examining the new contract aspects it appears initially that this is beneficial for employers' costs and impacts employee security and reward, for example under the traditional contract employers traded security and incremental salary increases for loyalty and employees "going the extra mile" (Herriot et al. 1997:152). Some evidence suggests the new contract may cost employers more than the old, for example, in their study of interim managers Inkson et al. (2001:260) found that a "salary premium" is required to compensate for insecurity together with agency fees. The new contract also encourages employers to view people as a commodity "to be exploited for the benefit of the company" (Byrne 2001:6). However with the new contract employees become free agents and employers must ask how they retain skilled people who may just continuously move to the "highest bidder" (Maguire 2002:178), or "look out for number one" (Rogers 1995:14). On the assumption that loyalty disappears concurrently with declining security "the mindset changes to a less tolerant and more market aware workforce, with a get out, get safe and get even mentality" (Byrne 2001:4). This is further confirmed by Hallier and Butts (1999) who argue that the new psychological contract from the employer perspective is to balance unequal exchanges. The change from the old contract to a new contract may be perceived as a violation or breach of the old contract and this is discussed next.

### **Violation and Breach**

*"In the strictest sense, violation is a failure to comply with the terms of a contract. But, given the subjective nature of psychological contracts, how people interpret the circumstances of this failure determines whether they experience a violation" (Rousseau 1995:112).*

Violation or breach of the psychological contract is commonplace (Rousseau 1995) and has been the major focus of previous research (Beaumont and Harris 2002; Rousseau 2001). There is a distinction between violation and breach where breach is effectively identification of perceived unmet obligations that may develop into full violation (Pugh et al. 2003; Pate et al. 2003; Pate and Malone 2000; Morrison and Robinson 1997). Breach therefore is characterised as a relatively short-term phenomenon or cognitive evaluation where individuals may quickly revert back to a stable psychological contract state while violation is an emotional and affective state that may follow from an organisation's failure to maintain the psychological contract (Pugh et al. 2003; Pate et al. 2003; Pate and



Malone 2000; Morrison and Robinson 1997). Therefore breach can be defined as a personal or group identification of a psychological contract obligation or promise failure and violation as the resultant psychological state. However, before continuing the analysis of psychological contract violation it is important to note that violation is viewed as a “narrow lens” in examining employee experiences and “there is a danger of psychological contracts being evoked to account for the negative responses people have to unpleasant events without providing evidence for their existence prior to the violation experience” (Rousseau 2001:534). Further, violation is a highly perceptual and subjective interpretation of events as noted above by Rousseau (1995) and by other researchers such as Pugh et al. (2003), Chrobot-Mason (2002) and Hallier and James (1997). Evidence also suggests that employees experiencing violation of their psychological contract with their employer will develop a new schema with a subsequent employer that will affect their expectations and beliefs about their new employment relationship and is negatively related to trust and positively related to cynicism towards a new employer, for example, Pugh et al. (2003). But what exactly is the definition of a violation of the psychological contract?

Rousseau (1995) has identified three forms of violation as shown in Table 3 below,

Inadvertent	Able and willing (divergent interpretations made in good faith)
Disruption	Willing but unable (inability to fulfil contract)
Breach of contract	Able but unwilling (reneging)

**Table 3. Sources of Experienced Violation. Source: Rousseau 1995:113.**

Inadvertent violation occurs because of divergent interpretations or misunderstandings, disruption occurs when circumstances prevent one or both parties from fulfilling their contract and breach of contract is a deliberate refusal by one party to abide by the contract (Rousseau 1995). However, there are other interpretations of violation such as Pate et al. (2003) who identify distributive violation where outcomes are perceived to be unfairly distributed, procedural violation or the perceived unfair application of procedures and



interactional violation linked to employees' perceived trust in superiors and the organisation. The key term here is perceived which again illustrates the subjective nature of psychological contracts and that one individual may perceive a violation but another will not (Hiltrop 1996). For example, in relating this to HP a newly promoted individual may feel their expectation from their perceived psychological contract with HP is being fulfilled whereas unsuccessful promotional candidates may perceive a violation (Chrobot-Mason 2002). While research has tended to focus on violation as an explanatory variable for employee attitudes and behaviour there is little research on the antecedents of contracts and the contexts in which violations are more or less likely (Guest and Conway 2002). Further, there is little evidence of research on psychological contract violation from the employer perspective (Guest and Conway 2002). But what is the impact of psychological contract violation on employees and organisations?

*"It is likely that reciprocity and trust are usually lost through a whole sequence of petty and not so petty violations. Nevertheless, the consequences of violation of the contract are so dangerous as to make it necessary for organizations to devote resources discovering and agreeing what it is, and then keeping it wherever possible" (Herriot et al. 1997:161).*

Violation of the psychological contract is not only perceived differently by individual employees but also by groups of employees, for example, older employees may experience a violation more than younger employees (Hiltrop 1996), minority groups may experience a violation as discriminatory (Chrobot-Mason 2002) and temporary staff may not experience any violation because of their expected short tenure (McDonald and Makin 2000). Different types of responses to violations range from destructive such as leaving the relationship (exit) or engaging in organisationally unhealthy behaviours or constructive behaviours such as voice or even silence and lack of response (Blancero and Elram 1997:619). Outcomes from a perceived violation differ therefore according to the expectations of the individual or group affected and situational factors (Rousseau 1995), but include the following, insecurity, distrust and betrayal (Hiltrop 1996), dissatisfaction, lack of commitment and organisational cynicism (Chrobot-Mason 2002), a negative impact on employee attitudes (Schalk et al. 1998), the relationship becomes more calculating and transactional (Pate et al.



2003), there are adverse affects in terms of loyalty, commitment and trust (Pate and Malone 2000), various kinds of hostility and various levels of depression occur (Meckler et al. 2003) and increased levels of exit, voice, negligent behaviours and decreased levels of loyalty to the organisation (Turnley and Feldman 1999). There is also evidence to suggest that “perceptual framing” affects employee perceptions of whether violation of psychological contracts actually occurs, for example “if times are tough we learn to adjust our expectations downwards” (Sparrow 2000:203). Rousseau (1995) has identified responses dependent on whether the employee belief is that the relationship is valuable. If so the response is constructive such as continuing loyalty or silence or the use of voice, i.e., communicating the grievance while maintaining the relationship (Rousseau 1995).

Conversely, destructive responses such as exit, (leaving the organisation), and neglect, (passive negligence or active destruction), indicate the employee believes the relationship is not valuable (Rousseau 1995). While Rousseau states destructive responses are most likely in an environment where there is a history of conflict, mistrust and violation, no voice channels exist and other people demonstrate neglect or destruction, there is evidence of this type of behaviour in HP. This is surprising as the perceived relational psychological contract existing between HP and its employees should generate constructive responses (Rousseau 1995). But what is this evidence?

The HP Global Security Services FY01 Annual Report (HP3) contains some interesting data indicating destructive behaviours. For example, thefts from HP facilities increased by nearly ten times between 2000 and 2001 (HP3:14, 22). While the dollar value is relatively low higher losses are predicted for 2002 by the following statement, “these loss trends bear watching as the slow economy, workforce re-balancing and uncertainty in the work environment will likely contribute to higher losses in FY02” (HP3:22). Another indicative destructive behaviour identified is product sabotage, almost unheard of in HP previously, but several cases of alleged product sabotage were investigated during 2001 that had serious potential consequences such as a customer receiving an electrical shock from a sabotaged monitor, damage to test equipment and sabotaged test results on computers resulting in significant financial loss (HP3:10). This behaviour can be linked with Byrne’s (2001:4) “get even mentality” and Rousseau’s (1995) destructive responses potentially because of



perceived violation of their psychological contracts by individuals within HP as changes were implemented. The next area to be examined from the psychological contract violation employee perspective is the concept of organisational justice.

Organisational justice can be employed to manage psychological contracts and prevent or reduce perceived violations (Chrobot-Mason 2003; Blacero and Ellram 1997). This concept of organisational justice provides a mechanism to explain different causes of psychological contract violation and is comprised of procedural, distributive and interactional justice (Pate et al. 2003). Before examining the managerial concepts of organisational justice there is an interesting perspective from the Australian judiciary that portends a concern for employers,

*“a number of determinations have latterly found an implied term in employment contracts that an employer will not without reasonable cause conduct itself in a manner calculated and likely to destroy or seriously damage the relationship of trust and confidence between itself and its employee. The issue remains controversial” (Freckelton 2002:111).*

This statement implies that the consequences of perceived psychological contract violation are being tested in the legal system and the outcome of damaged trust is congruent from both the managerial and legal perspectives. However, returning to the managerial concept of justice,

*“Procedural justice refers to the fairness of the decision-making processes underlying the allocation of outcomes or the resolution of disputes” (Rousseau 1995:128).*

Procedural violation is therefore the perceived unfair application of procedures (Pate et al. 2003) and may apply to the earlier example in HP of unsuccessful promotional candidates. Procedural violation may also lead to diminished trust and have subsequent negative effects on citizenship behaviour (Coyle-Shapiro and Kessler 2000). Conversely, if an employee experiences a negative outcome but believes the process is fair then this will help legitimise the decision (Rousseau 1995). Distributive violation occurs when outcomes are perceived to



be unfairly distributed (Pate et al. 2003). An example of distributive justice relevant to this study is the historic HP practice of temporary pay cuts to cope with economic difficulties which were shared equally by all levels in HP (Rousseau 1995; Packard 1995). Perceived distributive justice has positive outcomes such as job satisfaction and affective commitment (Pate et al. 2003). Finally, interactional violation is linked to employees' perceptions of trust in superiors and the organisation as a whole and is triggered if employees feel they are treated badly (Pate et al. 2003). Research on psychological contracts tends to dwell on the negative outcomes from the employee perspective such as violation and the resulting consequences, for example, (Pate et al. 2003; Maguire 2002; Coyle-Shapiro and Kessler 2000) but there is a positive side and this can help motivate employees.

### **Motivation**

Employee motivation is viewed as an outcome of the psychological contract (Guest and Conway 2002). Employees are motivated to stay with employers who ensure there is procedural justice in reward administration, "namely merit and equity" (Flood et al. 2001:1155) but the current working environment of lean organisations and employment insecurity is causing employers to try to find new ways of motivating employees (Maguire 2002; Kessler and Coyle-Shapiro 1998). This apparent paradox of employers needing the commitment (Guest and Conway 1999) and increased effort of employees to survive in the competitive world, while eliminating or reducing reward systems and job security (Maguire 2002; Rousseau 1995; Table 2), is difficult to comprehend. As poor psychological contracts result in demotivation (Maguire 2002) then logically good psychological contracts should enhance employee motivation. However, this does not appear to be the case as good contracts may not always result in superior performance (Maguire 2002). So where is the positive side of psychological contracts that can improve employee morale and motivation? Perhaps the best way of answering this question is to examine the history and development of HP and this is presented in chapter three. Another outcome of psychological contract violation that links with motivation and morale is the concept of survivor syndrome (Littler et al. 2003; Appelbaum and Donia 2001; Baruch and Hind 2000) and this is examined next.



## **Survivor Syndrome**

Survivor syndrome is typically viewed as an outcome from downsizing or workforce reduction (Appelbaum and Donia 2001; Baruch and Hind 2000). As downsizing may be perceived as a violation of the psychological contract by employees then this outcome is important in understanding employee motivation after a violation has occurred, for example,

*“Research has indicated that employees who remain within an organization after significant downsizing or delayering will experience adverse effects as profoundly as those who have left” (Baruch and Hind 2000:29).*

Organisational survivors may become demotivated, cynical, insecure and demoralised, possibly due to stress and anxiety based on fear of further downsizing or a diminishing trust in management or a combination of both (McGreevy 2003; Baruch and Hind 2000). Indeed surviving employees are *expected* to experience these outcomes together with feelings of guilt (McGreevy 2003; Baruch and Hind 2000:30). These effects are similar to those noted earlier when psychological contracts are violated, indeed downsizing or restructuring may lead to a new psychological contract and “mercenary attitudes” (Littler et al. 2003:248). However there is an alternative proposition that surviving employees may feel they are “the chosen ones” and thus surviving a downsizing or restructuring is a boost to their ego and has a positive effect (Baruch and Hind 2000:38). Similar to perceived violation of the psychological contract, survivor syndrome appears to be subjective and specifically related to the perceptions and expectations of individuals undergoing change in the working environment. This brief examination of survivor syndrome shows the concept is clearly linked with psychological contract violation and this will be tested later in the thesis. The penultimate part of the analysis of the psychological contract is to try and understand how the concept will develop in the future and this is addressed next.

## **The Future of the Psychological Contract**

As noted earlier in Table 2, the trend appears to be towards a more transactional psychological contract with lower job security, increased outsourcing and more career resilient employees. This initially appears preferable from a management perspective as a more flexible workforce that



can easily be eliminated is logically of lower cost and risk than an established workforce with higher potential redundancy costs. However, from the employee perspective, what is the motivation to remain with any company that is perceived not to value the individual as he or she is disposable? Perhaps the test of this transactional trend will occur when employee expectations are revised upwards in an improving economy as opposed to Sparrow's (2000:203) observation earlier of downward expectations in tough times.

Another dimension to the future of the psychological contract is the expectations of new generation workforces who may never experience a relational contract (Sparrow 2000). From an HR perspective perhaps the most concerning element of the trend to transactional contracts is that relational contracts will become increasingly difficult to retrieve (Murphy and Jackson 1999). But can companies operate effectively without the commitment of their employees that successful relational contracts appear to produce? Examples of reduced commitment within HP are presented later in the thesis but it is clear that reduced commitment is a concern for employers or they would not be seeking to find other ways of motivating employees when changing the psychological contract as noted earlier. However the question can be asked is this trend of transactional psychological contracts just another management fashion (Abrahamson and Fairchild 1999) or is it likely to be enduring? To try and answer this question there are two schools of thought, firstly the trend of transactional contracts will continue for the reasons noted earlier such as employers seeking a more flexible workforce and secondly the concept of the employment brand (Moynagh and Worsley 2001) indicates a reversion to more relational contracts, (the employment brand is examined in more depth later). Whatever the future outcome of psychological contracts may be, it can be assumed that the relationship between employers and employees will continue to change and evolve as a reflection of the societies they operate in (Drucker 1989). The final part of the analysis now examines how the psychological contract may relate to contractors as they are a key contributor to this study but have received little mention so far.



## **Contractors' Psychological Contracts**

*"It is commonly assumed that contractors are largely calculative, instrumental and self-interested in their relationship with organizations and interface with them accordingly" (Millward and Brewerton 1999:253).*

Contractors are therefore assumed to have transactional psychological contracts and many assumptions have been made about the likelihood of diminished attachments within a contemporary transaction oriented market place (Millward and Brewerton 1999). For example, contingent employees are likely to display less positive attitudes and behaviours than permanent staff, are less committed to the organisation and less likely to engage in organisational citizenship behaviour (Coyle-Shapiro and Kessler 2002). Contractors are effectively contingent employees as contingent working usually embraces casual, agency and fixed-term contract employment (Coyle-Shapiro and Kessler 2002). Other labels used for contractors are, temporary workers or "extra culturalists" (Kunda 1992:209), short-term insiders, short-term or long-term outsiders (Rousseau 1995:106-107), and many others (Inkson et al. 2001). Therefore it appears to be difficult to find consensus in the literature of the precise definition of a contractor and this may vary by organisation, function, geography and the time the research was conducted. However for the purpose of this research Coyle-Shapiro and Kessler's (2002) definition of fixed-term contract employment is probably the most appropriate for HP UK REWS contractors at this stage. Perhaps another distinction will help clarify the definition of contractors, they are typically viewed by organisations as non-core employees as distinct from core employees who are employed directly by the organisation and highly attached to it (Inkson et al. 2001; Rousseau 1995). However, contractors may have the opportunity to transfer to the host company and become a core employee (Inkson et al. 2001) but this may be at more senior levels as this example is based on interim managers (Inkson et al. 2001).

Returning to contractor psychological contracts, while evidence so far suggests the tendency towards transactional contracts research has shown that contractors can evolve a relational stance on a par with core employees and need not be "emotionally disengaged" from the workplace (Millward and Brewerton 1999:266). Indeed, contractors are just as likely as core employees to



link their identity with the host company (Millward and Brewerton 1999:266). It will be interesting to establish if this is the case with HP contractors later as,

*“the less socially and emotionally integrated an employee is with the organization, and the less a sense of belonging or being part of a team is felt, the more transactional he or she is likely to be” (Millward and Brewerton 1999:268).*

We now move on to the reasons for constructing a psychological contract framework to interpret the research data.

### **Justification for a Psychological Contract Framework**

Why choose to use the psychological contract as a framework as opposed to any other framework? During the research other approaches were investigated and used such as corporate culture in the first cycle (Buch and Wetzel 2001; Bluedorn et al. 1999; Schein 1999; Lok and Crawford 1999; Ogbonna and Harris 1998; Deal and Kennedy 1982). However, research found a substantial volume of literature in the corporate culture field and the research was compromised by potentially only being able to use a narrow perspective in this area. This does not mean that using a corporate culture approach is inappropriate but merely that time and resource constraints preclude a truly rigorous and wide ranging understanding of the research question by using a cultural framework. Similarly a spiritual framework was investigated as a potential analytical framework because it was a fashionable new academic approach as sourced from the literature (Howard 2002; Tischler et al. 2002; Krishnakumar and Neck 2002; Korac-Kakabadse et al. 2002; Tischler 1999; Burack 1999; King and Nicol 1999) and appeared to offer strong links to the future of the work environment. However, while not dismissing this approach as potentially appropriate for creating frameworks in the future the distinction or demarcation between religion and spirituality in the workplace was difficult to discern (Korac-Kakabadse et al. 2002; Tischler et al. 2002; Howard 2002). Therefore, similar to corporate culture, this approach was viewed as viable but not suitable for this particular research design as it appeared to be difficult to construct a truly rigorous framework because of the nebulous nature of spirituality.

The choice remained then of either constructing my own framework or using the psychological contract. The appeal of the psychological contract was the core



construct of reciprocity and mutual obligations (Rousseau 1995). This was essentially the direction of my research as every strategic implementation appeared to generate new obligations and change the reciprocity of the relationship between HP, its employees and contractors, for example, the resistance to and subsequent acceptance of the entrepreneurial approach in an internal market that is analysed later in chapter five. I therefore decided that the psychological contract framework was the most appropriate for my research. The final choice of constructing my own framework was investigated but again, time and resource was the limiting factor. This remains a potential choice for any future research I may undertake. Now the justification for using the psychological contract framework has been outlined the question needs to be raised of why is this framework particularly appropriate for my research?

The research objectives presented in chapter one of understanding impacts on employees and contractors as generated by strategic implementation within HP and the core concepts of reciprocity and engagement make the psychological contract framework particularly appropriate for this research. The development of a psychological contract between HP and its people is analysed later but it can be argued that HP succeeded in developing a relational psychological contract with its employees in the 1940s which lasted for decades as represented by the HP-Way. HP management would probably argue that a relational contract continues to exist but this will be tested later in the interview data. So why is the psychological contract meaningful for analysing this research?

Firstly, because the research focuses on HP employee and contractor responses to strategic change the psychological contract framework and definitions outlined above will help understand individual impacts resulting from strategic changes made. Secondly the concepts of psychological contract breach and violation will give a deeper insight into individual impacts from strategic change and whether any potentially damaged relationships between HP and its employees and contractors are capable of being repaired (Rousseau 1995). Finally, "it appears that, when employees perceive that their expectations have been met, they feel more obligated to contribute to the good of the organization and conform to organizational values and norms" (Flood et al. 2001:1163). This attribute of the psychological contract framework is particularly meaningful as it will help to understand the previous success of HP from the



employee and contractor perspectives and how the company is developing now. This concludes chapter two and I summarise this below.

### **Summary**

This chapter has explored and analysed the psychological contract concept and identified key aspects as transactional and relational. The analysis has examined all the identified components of the psychological contract from the literature and related it to HP and this research where possible. Concerns about the academic rigour of using the metaphor of the psychological contract as an analytical framework have been raised and addressed by producing working definitions of the psychological contract and identified aspects. Violation of, and change in, psychological contracts was identified and analysed together with examination of potential developments. The HP-Way was defined as a relational contract between the company and its employees and this has been further linked with the concepts of motivation, survivor syndrome and Rousseau's (1995) responsive business strategy. Finally, justification for using the psychological contract as an analytical framework for the research compared to other choices was presented and examined. Now the research framework is established and justified, an in-depth examination of the Hewlett-Packard Company is presented in chapter three to understand changes and the development of values since its inception.



## **Chapter 3**

### **The HP Organisation**

#### **Introduction**

This third chapter analyses the history and organisation of HP as it evolved from an original business idea to its current form. Understanding the values developed and the environment of HP is critical to understanding how employees and contractors respond to strategic implementation in later interview analysis and how this relates to the core concepts of engagement and reciprocity. The original or traditional HP is defined for the purposes of this research as chronologically before the appointment of the new Chief Executive Officer, (CEO) Carly Fiorina, during July 1999 and the reasons for this will become apparent during the analysis. The new or changed HP is then analysed comparatively with the traditional HP to identify the key strategic changes made and their potential impact on HP employees and contractors. Organisational characteristics such as the HP-Way, managerial values and employee responses are linked to and analysed using the psychological contract framework. Finally my position as a researcher, investor, and former HP manager is described and related to the research.

#### **History of HP**

The history of HP is important as the operating values established and resulting corporate creed known as the HP-Way (Packard 1995; see below) has a significant influence on how employees and contractors react to change (Schein 1999) as HP employees were “continuously immersed in the tenets of the HP-Way” (Collins and Porras 1994:211). First line managers were indoctrinated or oriented towards the philosophy because according to Packard “they’re the company to most people” (Collins and Porras 1994:211). Schein (1999:19) describes these values as “shared tacit assumptions” that are imposed by the company founders and if the company operates successfully by adopting these values then it will attract like-minded employees to continue the business model. Conversely, a company that fails would logically have the wrong values and assumptions (Schein 1999). The HP-Way that can be described as evolving from the original psychological contract within HP is outlined next so the reader can become accustomed to the values before the next part of the analysis.



## The HP-Way

### Corporate Objectives

**First Objective: Profit.** *To achieve sufficient profit to finance our company growth and to provide the resources we need to achieve our other corporate objectives.*

**Second Objective: Customers.** *To provide products and services of the greatest possible value to our customers, thereby gaining and holding their respect and loyalty.*

**Third Objective: Fields of Interest.** *To enter new fields only when the ideas we have, together with our technical, manufacturing and marketing skills assure that we can make a needed and profitable contribution to this field.*

**Fourth Objective: Growth.** *To let our products be limited only by our profits and our ability to develop and produce technical products that satisfy real customer needs.*

**Fifth Objective: Our People.** *To help HP people share in the company's success which they make possible; to provide job security based on their performance; to recognise their individual achievements; and to ensure the personal satisfaction that comes from a sense of accomplishment in their work.*

**Sixth Objective: Management.** *To foster initiative and creativity by allowing the individual great freedom of action in attaining well-defined objectives.*

**Seventh Objective: Citizenship.** *To honor our obligations to society by being an economic, intellectual, and social asset to each country and each community in which we operate.*

**(Source: HP1)**

The HP-Way can be described as a relational psychological contract because it meets the attributes of the working definition identified earlier, a relational psychological contract contains those aspects or obligations in the employment relationship that are difficult to quantify economically, tend to be excluded from the employment contract, are long-term, socio-emotive and perceptual in nature and are career focused.

Development of the HP-Way is described by Packard (1995:79-82) as resulting from a meeting in Sonoma, USA during 1957 where the founders, Bill Hewlett and Dave Packard, felt the company was growing too quickly for them to



maintain a small-company atmosphere. This is clear evidence of the founders needing to maintain a relational psychological contract as they perceived the reciprocal benefits from this. The outcome was a set of six objectives subsequently modified in 1966 to seven objectives that became known as the HP-Way (Packard 1995:82). It is worth noting at this point that Bill Hewlett and Dave Packard were always referred to as “Bill and Dave” within HP (Anders 2003:1; Packard 1995:159; Peters and Waterman 1982:245,246), which is a reflection of HP values, the egalitarian nature of the corporation and a relational psychological contract.

*“Any organization, any group of people who have worked together for some time, develops a philosophy, a set of values, a series of traditions and customs. These in total, are unique to the organization. So it is with Hewlett-Packard” (Packard 1995:82).*

But how were these values developed by Bill and Dave? To answer this it is necessary to understand the formation of the company and its chronological development.

### **Formation of HP**

*“When I talk to business schools occasionally, the professor of management is devastated when I say that we didn’t have any plans when we started---we were just opportunistic.” (An interview with Bill Hewlett 1987, Collins and Porras 1994:24).*

A company’s psychological contract expectations arise from its history and business environment according to Levinson et al. (1962). Bill and Dave met and became friends while studying at Stanford University in 1930. This friendship was to endure for over sixty years and become famous because of their success in business together (Anders 2003). Professor Fred Terman of Stanford University encouraged Bill and Dave to start a company as his dream was to create a West Coast technology hub around Stanford (Burrows 2003). Bill and Dave started HP during 1938 in a one-car garage in Palo Alto, California, which is now a designated historic landmark and recognised as the birthplace of Silicon Valley (Packard 1995). After signing a partnership agreement at the beginning of 1939 the company name was decided on the flip



of a coin (Packard 1995). HP was incorporated during 1947 for tax purposes and to provide more continuity to the business than a partnership could (Packard 1995).

Bill and Dave started their business by designing and developing various products such as “optical toilet flushers, electrical muscle stimulators, air conditioner parts, bowling-lane foul indicators” (Burrows 2003:51) and “anything else that would bring in money” (Anders 2003:10). The company “stumbled along” in its first year before it achieved its first big sale to Walt Disney (Collins and Porras 1994:24). The sale of audio oscillators to the Disney Corporation, part of HP’s mythology, was not as important as is generally quoted (Packard 1995) as Bill and Dave were determined to make successful electrical products. However, this product was the first big seller and ultimately led to production of a range of technical instruments, including an atomic clock, that were constantly perfected (Anders 2003). From these humble beginnings Bill and Dave created a successful global calculator, printer, computer and technical instrument company that “can live on as a role model long after I’m gone” (Interview with Bill Hewlett 1990, Collins and Porras, 1994:1). The development of HP is analysed next by using financial, people, management, structural and philanthropic perspectives to understand how the psychological contract developed over this time. Understanding these values is important as their development is a reflection of the founders’ values, personal beliefs and assumptions or the glue that holds the organisation together (Schein 1999). Schein also points out that in contrast to other organisations HP espoused and practiced “a more groupist paternalistic philosophy” from the beginning (1999:53). The analysis of values begins with examining the financial perspective.

### **Financial Perspective**

*“At the end of 1939, our first full year in business, our sales totalled \$5,369 and we had made \$1,563 in profits. We would show a profit every year thereafter” (Packard 1995:46).*

This statement is indicative of the first objective of the HP-Way, profit, and reflects how important this value was to Bill and Dave. It also reflects the financial prudence of the company where long term borrowing was eschewed in



favour of funding growth from reinvested profits (Packard 1995:58). However, profit was not the final objective for HP as Packard stated “profit is not the proper end and aim of management. It is what makes all the proper ends and aims possible” (Collins and Porras 1994:56). This “radical” view (Burrows 2003:53) was confirmed in 1942 during a conversation between Packard and Stanford professor Paul Holden. Holden stated “management’s responsibility is to the shareholders---that’s the end of it.” Packard’s response was to state that management had a responsibility to employees, customers and the community at large resulting in Packard almost being laughed out of the room (Winslow 1994:175). Nevertheless, Packard ensured profit remained an important objective of HP by institutionalising his view as reflected in a statement by John Young, (HP CEO 1976-1992), “yes profit is a cornerstone of what we do – it is a measure of our contribution and a means of self-financed growth – but it has never been the *point* in and of itself” (Collins and Porras 1994:57). This statement is also an indication of the degree of control that Packard continued to exercise within HP before his death in 1996.

After incorporation HP continued to grow quickly, often doubling annual revenues in a single year, for example, revenues doubled during both 1951 and 1952 (Packard 1995:65). This growth continued for decades until the downturn in 2001 (HP5). Other values that were important to Bill and Dave were developed over time and these are identified next.

### **People Perspective**

*“All told, HP was remarkable in a thousand unremarkable ways, and those who worked there felt privileged” (Burrows 2003:50).*

Bill and Dave were raised during the depression years in the United States and this was to have a significant influence on them as they witnessed the devastating effects on people around them (Packard 1995:84). It can be argued that many of their business decisions relating to how employees were managed resulted from this influence and thus it can be argued that their people values began to be shaped during this time. An example of their people values is in the following statement, “the interest that Bill and I and our families had in the welfare of HP employees was reflected in some early practices and customs” (Packard 1995:130). Examples of these customs included annual company



picnics and the purchase of land for employee leisure facilities (Packard 1995). Perhaps these people values can be summarised in the following statement, “they wanted to create a company for the joy of working with each other, to provide a place where like-minded engineers would enjoy working, and to put technology to work for the greater good” (Burrows 2003:53). This is indicative of a purely relational psychological contract where reciprocity is implied by the joy of working together with their employees. Another specific incident that influenced Bill and Dave’s values was being obliged to sack many of their employees at the end of the Second World War when military orders reduced. This situation must have been extremely difficult for Bill and Dave as it contravened their values and resulted in them violating their relational psychological contract with their employees. Packard vowed never again to run a “hire and fire” organisation (Anders 2003:11).

The underlying principle of HP’s personnel policies was the concept of sharing, sharing in the company’s success but also sharing the burden during occasional business downturns. HP’s benefit packages also reflected this concept of sharing and were specifically tailored to the laws and customs of the employing country (Packard 1995:132-133). Benefits were noted earlier as a transactional psychological contract component, (Table 1.) but the traditional HP benefits package was viewed as generous (Burrows 2003) and therefore can be argued as partly relational. For example, further education is a relational component and therefore its funding could also be defined as relational. So far I have identified the values of financial prudence and profit, concern for the welfare of employees and sharing. Understanding these values is important because of the significant effect they have on employees and contractors noted earlier (Schein 1999) but what other values were important to Bill and Dave and contributed to the formation of the HP-Way and helped develop HP’s psychological contract with its employees?

Trust is another important value within HP and this was demonstrated by practices such as flexible work hours and open equipment stores. Bill and Dave viewed the attribute of trust as a reflection of the way HP does business. While the purpose of open equipment stores was for engineers to be able to borrow tools for their own use, sometimes working on company projects in their own time; open stores were also symbolic of trust in employees (Packard 1995:136-137). Packard regarded flextime as the essence of respect for and trust in



people and HP was the first company in the US to introduce the practice (Packard 1995). Trust in employees was also demonstrated in other practices such as “job sharing” (Burrows 2003:64). Trust is also another relational component of the psychological contract (McDonald and Makin 2000) and therefore another example of Bill and Dave’s expectation of reciprocity from their employees. However, there is evidence that this part of the psychological contract began to become unworkable with increased outsourcing and hiring of contractors during the 1990s as thefts and frauds began to increase. For example, a \$25 million theft of computer memory components from HP Germany resulted in the arrest of two temporary workers, one contractor and two dealers in the mid 90s (Brant 1996). There were many other values important to Bill and Dave and these are identified next in the management perspective.

### **Management Perspective**

Some key management practices were identified by Packard (1995) as contributing to the effective management of HP. Management by walking around, (MBWA), was viewed by Packard as an important technique for helping managers to understand the work people were doing and to make themselves more visible and accessible (Packard 1995). This practice “was a shocking, delicious contrast to the rigid hierarchies of older companies” (Anders 2003:14). MBWA was also complementary to the “open door policy” which characterised the HP open management style because everyone, including the CEO, works in open-plan offices without doors (Packard 1995:156-158). Schein (1984) has described this as Organisation A, where there is a general air of informality, few closed doors, people milling about, open office landscapes and intense conversations and arguments. This is compared with Organisation B where there is a general hush, everyone is behind closed doors, nothing is done without prior arrangement, there is real deference and obedience according to rank and an air of formality permeates everything (Schein 1984). However, open office arrangements do have problems including an absence of acoustical privacy but they “signify more equality” (Pfeffer 1994:49). While Schein (1984) believes neither type of organisation is wrong, Bill and Dave believed that people operate more effectively and comfortably in a truly informal and first-name atmosphere (Packard 1995:159). This is also indicative of the open communication channels in HP which were governed and encouraged by operational need rather than hierarchies and organisation charts (Packard



1995). Another key HP management technique that links closely with MBWA is MBO, management by objectives and this is discussed next.

*“NO OPERATING POLICY has contributed more to Hewlett-Packard’s success than the policy of management by objective” (Packard 1995:152).*

MBO is a fundamental part of HP’s operating philosophy and is the antithesis of management by control (Packard 1995:152). MBO is essentially a system where overall objectives are clearly stated and agreed upon and people have the flexibility to work towards achieving those objectives in ways they think are best for their own responsibility areas (Packard 1995; Collins and Porras 1994:209-210). This is contrasted with a rigid and controlled militaristic system where people are directed and managed on specific tasks and have to follow instructions precisely. There are criticisms of the MBO approach, for example, Kerr (1980) suggests there are a number of dysfunctions, serious enough in many cases, to keep the system from performing efficiently and that MBO is not likely to be effective when employed as a total system. However, he also acknowledges that MBO requires friendly, helpful superiors, honest and mature subordinates and a climate of mutual trust (Kerr 1980). It can be argued that HP already had the environment in which MBO would be successful which minimised any potential dysfunctions and the strong relational psychological contract aspect of mutual trust. Packard believed that MBO was the philosophy of decentralisation in management and the “very essence of free enterprise” (Packard 1995:153). Enthusiasm is another important management attribute recognised by HP and this is discussed next.

*“At Hewlett-Packard, top management’s explicit criterion for picking managers is their ability to engender excitement” (Peters and Waterman 1982:84).*

Enthusiasm is expected of HP employees at all levels and particularly of its management as Packard stated “there can be no place for half-hearted interest or half-hearted effort” (Packard 1995:126). An example of how this approach is institutionalised in HP is found in the Working at HP induction course where enthusiasm about work is specifically equated with job security (HP1 1979). This is another example of the reciprocity found in the old or relational psychological



contract noted in chapter two and Table 2. The expectation of enthusiasm is generated from Bill and Dave's belief that people want to do a good job, enjoy their work in HP and feel a real sense of accomplishment in their work (Packard 1995:126-127). This is closely coupled with their belief that individuals are treated with consideration and respect, achievements are recognised and people are able to realise their potential (Packard 1995). Central to all of these management attributes and expectations of employee performance is the term "contribution" (Collins and Porras 1994:56). Packard believed that any endeavour in business should make a *contribution*, this may be to society (Collins and Porras 1994), or to product innovation, a process, or an art (Packard 1995). The term contribution clarifies a fundamental approach in HP and is the basis for decision making, for example, any new product would not be produced unless it first met this criterion (Packard 1995). The final management value identified in this section is promotion from within.

*"I have always felt that the most successful companies have a practice of promoting from within" (Packard 1995:163).*

The practice of promoting from within resulted in most key managers "growing up" with HP but this changed in the 1960s when HP entered the computer business (Packard 1995:163). Some of the expertise that HP required was only to be found outside of the company and most of the people that joined HP readily adapted to the HP-Way (Packard 1995). Probably the most significant examples of promotion from within are the CEO's that followed Bill and Dave, John Young and Lew Platt respectively (Packard 1995). Significantly, Bill and Dave managed both of these transitions (Packard 1995), indicating their control continued long after their retirements from active management. The analysis of HP now continues with how HP developed from the structural perspective again contributing to the development of HP's psychological contract with its employees and identifying the values that significantly influence employees and contractors.

### **Structural Perspective**

*"Bill Hewlett and Dave Packard's ultimate creation wasn't the audio oscilloscope or the pocket calculator. It was the Hewlett-Packard Company and the HP-Way" (Collins and Porras 1994:30).*



While HP began as a small business, its structural development to a large company continued to reflect the values of the founders. For example, Bill and Dave wanted to retain the emphasis on individual responsibility and achievement along with the personal elements of the HP-Way while understanding that diversification would lead to a decentralised strategy (Packard 1995:139-140). This resulted in divisionalisation of the organisation with further parts of divisions split off, “local decentralisation,” as they grew to a perceived unmanageable size. Again the reasons for this structure were partly based on the personal elements of the HP-Way as shown by concern over employees continuing to take a pride in what their division was doing and to improve management effectiveness (Packard 1995:146). Further growth resulted in a group structure where divisions were grouped organisationally by related product lines and markets. By the early 1990s HP was comprised of sixty-five divisions organised into thirteen product groups (Packard 1995:147). This decentralised structure worked effectively for the instruments businesses but caused problems for the new computing business (Packard 1995:148-149). This resulted in a major business intervention by Bill and Dave where they toured many of HP’s facilities during the early 1990s and identified problems of bureaucracy and too many layers of management (Packard 1995:150-151).

Lew Platt was also appointed as CEO at this time (1992) to replace John Young who had lost the confidence of HP people and the HP board (Anders 2003). Similarly, Lew Platt also began losing the confidence of HP people and the board during 1996 to 1998 as HP’s revenue growth slowed and the company’s stock market performance had gone from “troubling to pathetic” (Anders 2003:41). At this time it was perceived that the HP structure had become too decentralised and fragmented and Platt needed a strategy to revitalise the company (Anders 2003; Burrows 2003). This resulted in Platt deciding to split HP in two by spinning off the instrument division and forming a new company subsequently named Agilent Technologies during 1999 (Anders 2003). Many people felt that the instrument division should have retained the Hewlett-Packard name as it was the original HP. For example, David Woodley Packard, Dave Packard’s son and HP board member, stated “that’s the real HP! That’s where the name ought to stay” but the board disagreed as they felt the HP brand had value in the consumers’ eyes and should remain with the computer and printer company (Anders 2003:41). This led to the resignation of David Woodley Packard from the HP board which continued the decline in influence of the



founders' families in HP. The final structural element to be analysed is HP's acquisition strategy.

*"Bill and I had no desire to see HP become a conglomerate, since, as I've already pointed out, more companies die from indigestion than starvation" (Packard 1995:142).*

HP's acquisition strategy until 1999 has been one of relatively small acquisitions that were useful in expanding HP's technology and gaining entry into new markets. While Packard acknowledged some of the benefits of acquisitions he also tended to see some of the negative effects such as the blending of cultures, operating philosophies and management styles and the failure of the Autodynamics Company acquisition (Packard 1995:143). Some of the acquisitions made have been successful such as the Sanborn Company that gave HP entry into the medical field and F & M Scientific that added chemical analysis to the instruments division (Packard 1995). It is important to note that consolidation in the computer industry is a continuing process with Hewlett-Packard's acquisition of Apollo Computer in 1989 (Packard 1995) and Compaq's acquisitions of Tandem and DEC (Burrows 2003:180) as examples. However, Bill and Dave had set expectations that any acquisition should produce a profit and add real value to the business. This further relational element of the psychological contract is important to note before the analysis of the Compaq acquisition later. As noted earlier, Bill and Dave had wider ambitions than just making a profit and this leads to the final perspective to be analysed, philanthropy.

### **Philanthropic Perspective**

*"Among the Hewlett-Packard objectives Bill Hewlett and I set down was one recognizing the company's responsibility to be a good corporate citizen" (Packard 1995:165).*

Bill and Dave's philanthropy is renowned as their common view on their vast personal fortunes was that it should be given away (Burrows 2003:61). This resulted in the formation of foundations that managed charitable donations to institutions such as universities and hospitals, indeed ninety five percent of their wealth was put into charity (Burrows 2003). This concept of public service also



extends to HP where employees are encouraged to participate in activities that benefit their local communities (Packard 1995:166). Is this purely altruistic behaviour or sound business sense? You can interpret this in two ways, for example a donation of computer equipment to a school is welcomed by the students and teachers but does this predispose them to buy HP products later because of their familiarity with HP equipment and is therefore an investment? Whatever your view the fact remains that HP seeks to become an asset in every community it participates in and has donated millions of dollars to worthy causes. This is also another example of a relational contract between HP and its employees as community service would typically be recognised, supported and even rewarded by HP management. However, some began to feel that during Lew Platt's tenure as CEO people were too focused on the softer trappings of the founders' philosophy such as philanthropy and diversity and not focused on the business philosophy (Burrows 2003). The analysis now seeks to find any contradictory evidence or perspectives that HP was not as excellent as is portrayed so far and to test the earlier Argyris and Schön (1978) proposition of espoused theory and theory in use.

### **Contradictory Evidence**

The analysis of HP so far appears almost idyllic from the employee perspective but is there any evidence that the company was not "the best little company in America?" (Anders 2003:12). Well the company was not ideal for everyone, for example, "if you're not willing to enthusiastically adopt the HP-Way then you simply don't belong at HP" (Collins and Porras 1994:121). Extremely entrepreneurial people were often frustrated by the constant need to consider other opinions, some people did not like all the camaraderie and top performers found the pay packages too egalitarian (Burrows 2003:55-56). One of Dave Packard's nicknames was the "mean one" which was earned when he castigated employees when they failed, though generally he would apologise later if he had been too severe (Anders 2003:7, 12; Burrows 2003:54). Packard acknowledges that the HP-Way is not for everyone and some people cannot adapt to it (Packard 1995:163). This is supported by Collins and Porras (1994:229) who state that companies attract individuals whose personal values are compatible with the core ideology of the company and conversely, repels those whose values are contradictory. It can be argued that the psychological contract was generally in balance between HP and its employees during this time if the employee was able to adapt to the HP-Way and distinctly focused on



the relational elements of the psychological contract. In summary there is little evidence of negative experiences in HP before 1999, quite the contrary, HP was consistently rated highly in best place to work surveys (Anders 2003) and in internal employee surveys (HP Measure).

My personal experience of HP, in a variety of analytical and managerial roles, during the “traditional HP” years of 1985 to 1999, is of a great place to work with like-minded people all striving to improve processes and the customer experience. Many people were conscious of their own personal costs and made efforts to defray this, for example, in the UK logistics group unofficial annual targets of ten per cent improvements in productivity were strived for together with official objectives cascaded by a “Hoshin” planning process (Soin 1992:53-91). As a manager, motivation was never a problem for me with my reporting employees, quite the contrary as occasionally I mentioned in performance evaluations that individuals were “over-investing” their time in HP. Interestingly these individuals tended to be longer serving employees with over fifteen years of tenure. Naturally HP was not perfect and occasionally some conflict would arise but this tended to be when people acted against the corporate code or resulted from personal differences.

An example of this conflict occurred in the UK where a UK manager was perceived as a maverick because he was not viewed as a team player in the employee ranking process, (used with permission from a telephone interview). This resulted in pressure from the HR department for the manager to be removed which can be described as action to remedy a perceived psychological contract violation from the employer perspective (Rousseau 1995). Many employees were in the HP stock purchase scheme and these employees including myself criticised the performance of both John Young and Lew Platt when the share price fell. Nevertheless I can describe HP as a unique and refreshing experience from my perspective and yes, it was a privilege to have worked there until the changes began in 1999-2000 which are analysed later in this chapter.

This completes the analysis of what may be described as the old or traditional HP (Burrows 2003), an egalitarian, open and friendly corporation where uncompromising standards of integrity were mixed with an enthusiasm to succeed and philanthropy and thus a strong, balanced relational psychological



contract. This analysis has not mentioned many of the other qualities that differentiate HP such as customer and product strategies as individual components of these qualities deserve a thesis in their own right. However, I have tried to capture the essence of what made HP a unique experience for many people that participated in its development and to form a starting point for analysing recent changes during the last three to four years. The analysis now moves on to describing the new era of HP with the appointment of the new CEO, Carly Fiorina, and the changes she implemented with HP board approval.

### **New Organisation and Changes**

The old or traditional HP was analysed above to understand how the company developed and the key values that evolved that formed the old or original psychological contract represented at the high level by the HP-Way. The new era of HP did not suddenly start with the appointment of Carly Fiorina as CEO but this was a defining point in HP's history as for the first time a CEO had been appointed who was an outsider and had not been groomed in HP values by Bill and Dave and furthermore had a marketing and history background rather than engineering (Burrows 2003). This section of the thesis describes the appointment and the controversy surrounding it then identifies how the values in HP began to change as Fiorina took control of the company as the founding families' influence began to dissipate. These changes are then analysed by using the psychological contract framework to understand how this impacted on the responses and attitudes of HP employees and contractors.

### **The Appointment**

*“All of a sudden HP had a celebrity CEO. And no one inside the company had any idea how to cope” (Anders 2003:63).*

Fiorina is described as the antithesis of the old HP, charismatic, bold, even glamorous, and HP stock rose in value by 2% on the day of her appointment to \$116.25, then an all time high (Burrows 2003). HP had prided itself for years on being first with innovative approaches and this was another example as HP employees had expected another 50-something white male to be appointed (Burrows 2003). The appointment was likened to a scientific experiment because of the apparent contradictions, for example, Fiorina's zeal and extroversion compared with HP's introversion and innate caution (Anders 2003).



Fiorina was hired to reinvigorate the company as Platt, the previous CEO and the board had identified serious weaknesses such as HP's "fading fortunes, lack of strategic vision and urgency" (Anders 2003:57, 83). A change in the board's policy from a traditional force of constraint and prudence to a war council pushing for change was a reflection of the transition from the founding families influence and values to a new order where a "giant acquisition" was viewed as a possible strategic fix (Anders 2003:83). The appointment also contradicted Bill and Dave's tenet noted earlier of "promotion from within" again reflecting the weakening of the founders' values and perhaps the beginning of the erosion of the relational psychological contract from the employee perspective.

Ann Livermore was considered as the only viable internal HP candidate for the CEO role but this was not progressed as she was perceived to be "HP through and through---too nice, too stodgy and too vanilla" (Burrows 2003:121). This is only a brief description of the events surrounding Fiorina's appointment but the important reasons from the research perspective have been established. To fully understand the subsequent changes implemented by Fiorina it is important to have a brief understanding of the values she brought with her into HP and this is discussed next.

### **Fiorina's Values**

Fiorina's role prior to being hired by HP was head of sales with Lucent, previously part of AT & T but spun-off in 1996 (Anders 2003; Burrows 2003), which again attracted controversy. For example, during the tech slowdown Lucent suffered more than most because of dubious business practices such as vendor financing where Lucent provided loans to customers to finance equipment sales resulting in the Securities and Exchange Commission (SEC) investigating possible accounting violations (Burrows 2003). Supporters of Fiorina point out that she had left Lucent before all the controversy started but detractors believe she escaped just before the bubble burst and was partly responsible for the financial crisis in Lucent (Burrows 2003). Whatever the truth is, Fiorina's qualities of aggressive salesmanship and achieving revenue growth using new extremes such as high credit risk vendor financing (Burrows 2003) is diametrically opposed to Bill and Dave's original values of only entering a business area that will produce a profit and to have unquestionable business ethics.



Other concerns within Lucent surfaced after Fiorina left such as revenues being reduced by \$679 million to erase bogus sales from previous quarters and speculation that Fiorina would have been fired had she not gained the HP appointment (Burrows 2003). In retrospect the HP relational psychological contract with its employees was already threatened the day Fiorina was appointed because her values and ethics were so different from Bill and Dave's and this will become clear as the analysis progresses. A reflection of Bill and Dave's ethics is shown by the behaviour of former CEO Lew Platt who not only handed HP over to Fiorina after managing the spin-off of Agilent so the new CEO could get a fresh start with a more manageable HP but also stayed on to help find his replacement (Burrows 2003). This old-fashioned brand of HP integrity (Burrows 2003) has probably contributed to Lew Platt's recent appointment as non-executive chairman of Boeing as that company has been rocked by scandals and questionable ethical practices resulting in the resignation of their current CEO (Bloomberg.com 2003). Returning to Fiorina's values it is clear from the outset that she was on a collision course with HP traditionalists as her background, style, lack of technical ability and dubious ethical code were perhaps too different from the values that had made HP successful (Burrows 2003). The analysis now moves on to understanding how employees reacted to the appointment and the immediate changes made.

### **Employee Reactions to the Appointment**

Initially the HP workforce welcomed Fiorina as a corporate saviour but the initial enthusiasm would be brief (Burrows 2003) as Fiorina's huge pay package and the rebuilding of HP's fleet of corporate aircraft was commenced which contrasted with the Spartan values of the previous CEO, Lew Platt (Anders 2003). By the end of 1999 a backlash began to build among employees as myths about "Queen Carly" proliferated and a company web page devoted to refuting these rumours and myths appeared shortly after (Burrows 2003:152). HP employees began to divide into two opposing groups, the traditionalists or "detractors" and the "supporters" (Burrows 2003). Fiorina addressed this problem by helping detractors to leave the company with generous retirement packages that were almost "too good to resist" for any employee aged over 55 during March 2000 (Burrows 2003:165). This also resulted in HP losing some of its most proven executives such as Antonio Perez who commented, "cash and fear, that's how she operates" (Burrows 2003:165). This approach directly contradicts the original HP-Way where respect for individuals and an egalitarian



atmosphere were the cultural norm and is an example of perceived violation of the relational psychological contract. A further action by Fiorina, also perceived to violate the psychological contract, was the hiring of bodyguards, previously unheard of in HP (Burrows 2003). This increased security was a big shift from HP's open, trusting atmosphere and was also reflected by senior executives being ordered to get unlisted phone numbers (Burrows 2003). However, as noted earlier, Fiorina's brief from the HP board was to reinvigorate HP and as she continued along this path employee resistance increased as shown next.

### **Employee Resistance**

Perhaps the first major change implemented by Fiorina that most employees became aware of was the reinvention of HP contained in a booklet entitled "The Journey" (HP2 2000) and distributed to all employees during July 2000. Although much of the information had been available on employee web sites for months before, this booklet was a complete summary and contained the vision and new strategic direction for HP defined as "preserving the best of HP and reinventing the rest," and details of new pay and benefits structures (HP2 2000:78-85, 88). The booklet also contained the new code entitled the "Rules of the Garage" as shown below. This new code was designed by Fiorina and the HP Executive Council (EC) to connect the new HP with the spirit and intent of the company's founders and to serve as a new HP-Way, restated for a new century (HP2 2000:90).

#### **Rules of the Garage**

**Believe you can change the world.**

**Work quickly, keep the tools unlocked, work whenever.**

**Know when to work alone and when 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.**

**Source: HP2 2000:89, The Journey, Hewlett-Packard Company.**



A new vision statement was also noted in the booklet, “HP must become a winning e-company with a shining soul” (HP2 2000:41).

Some responses to this new code and vision statement were probably predictable from HP’s pragmatic people, many employees just groaned, “it sounds icky” recalls one engineer, and “to many HPers it sounded trite---not the pragmatic brilliance of the founders, but the precious musings of marketers” (Burrows 2003:146). Fiorina had predicted some resistance and in an interview with Stanford professor Robert Burgelman she had stated, “I think 20 percent of our people won’t come along, either because they don’t want to or won’t be able to change their thinking patterns” (Meza and Burgelman 2000, in Burrows 2003:147). This is again indicative of a violation of the existing relational psychological contract as Fiorina sought to remove any opposition to her vision of a new HP as contrasted with the traditional HP where people felt free to voice their opinions. “In the past, HPers believed they had an open dialogue with management“ and increasingly “it became a one-way flow of information and you couldn’t question why,” said former economist Richard O’Brien (Burrows 2003:162).

Another factor that helped Fiorina counter employee resistance was controlling HP’s “gene pool” by altering the kinds of people hired and let go (Anders 2003:76). The employee attrition rate during the Platt years was an astonishingly low 5% (Anders 2003:76) and as low as 4.1% in the UK during 1995/1996 (Brant 1996). However, once Fiorina took control the rate doubled, particularly among senior managers, and this would help her “reshape the company to her tastes” (Anders 2003:76). This approach is confirmed by Schein (1999) who states,

*“If the CEO is charismatic, he or she may be able to convert many of the present managers of the organization. More probably, the new CEO has to get rid of the major culture carriers and replace them with new people whose assumptions better fit the current realities the organization faces” (Schein 1999:172).*

A personal recollection of this approach was a new cynical buzzword that began circulating in HP at this time which was “ventilating” the company! Employee resistance continued increasing as Fiorina’s reign progressed and employees



were tiring of her habit of blaming the company instead of questioning her own approach (Burrows 2003) but worse was to come.

HP's financial performance began to deteriorate in the autumn of 2000 but Fiorina maintained revenue growth would continue at 17% until she had to retract this in January 2001 which attracted some of the harshest rebukes from Wall Street (Anders 2003; Burrows 2001) as investors questioned her judgement (Burrows 2003).

*“Fiorina’s mistakes in late 2000 would prove far more long-lasting than anyone could have known. Her failure to take her foot off the growth pedal in late 2000 would create a nasty collision as HP ran into the worst downturn in tech industry history. Over the next six months, HP’s workers would pay the price” (Burrows 2003:173).*

HP management then asked employees to take a voluntary pay cut of 10% or equivalent time off for six months from June 2001, 86% agreed and HP saved \$130 million (Burrows 2003). This is an example of the old relational psychological contract and HP-Way where most employees accepted the concept of sharing in good and bad times. However their trust in HP was betrayed almost immediately after agreeing to the pay cut as the largest layoff in HP's history was announced with the loss of 6,000 jobs (Burrows 2003). This was in addition to the elimination of many other benefits such as profit sharing, a pay freeze the previous December and bans on cell phones and air travel which resulted in unprecedented employee anger and a sense of loss (Burrows 2003).

Trust began to dissolve as employees posted increasingly hostile messages anonymously on HP on-line message boards with Fiorina as the target (Anders 2003) culminating in closure of these boards in mid 2001 (Burrows 2003). The HP Now Discussion Forum message board is a good example of the increasing hostility and some extracts are shown below,

Subject: A Manager's View, Date: Mon Mar 12 18:49 PST 2001.

“We the people who make this company and support this company are the company! Carly and her clan.....just decide how to cheat, lie and steal from us, (the company) and to please, tease and cheese the shareholders. Is there anyone out there still stupid enough to believe that all of this nonsense that has



happened here in the last year is really going to be all for the better? I am a 20 year veteran and I am no longer proud to be here, I'm ashamed."

Subject: A Manager's View, Date Tue Mar 13 00:40 PST 2001.

"I'm getting out of here as soon as I can. Ironically, working for HP was one of my big dreams and when I got a job here less than two years ago I was ecstatic. It's turned into the biggest disappointment of my life --- but at least I know I have other choices."

Subject: The big picture, Wed Mar 07 20:42 PST 2001.

"There's no feeling of joy or pride in HP if you work in such areas as "infrastructure." Will we end up with a workforce of sad, lonely, disgruntled employees chanting Customers, Customers, Customers. Carly should not only improve our customer experience but our employee one. We're important too."

Subject: Lot of HP news, very little value, Wed Jan 17 09:02 PST 2001.

"I am also waiting for Carly to pack her stuff and get out of this company! I truly hate to see her picture all over, her idiotic rules of the garage, her lies to the people and the public. I am just sick of her. She just doesn't have what it takes to run this company. HP-Way YES! Rules of the garage NO! Carly, if you read this, please, listen to the people, pack your stuff and leave! I am a shareholder too."

Subject: More & more and the big stick mentality, Sat Feb 17 14:41 PST 2001

"Cut, cut, cut. Cut the beer busts, picnics, profit sharing, held back pay increases, cut education, overtime, snacks, meeting catering, raised my health insurance, robbed me of 5 days of my earned fto, (flexible time options/off) restricted use of my holiday bank, no discretionary spending on employees. And oh, you'll love this...can't even find an INK PEN, yeah that's right----Time to get out folks. If you don't recognize a sinking ship when you see one you'll drown---- Thanks Carly for the astronomical mess you've made. What company are you going to destroy next?"

Subject: Well did it help? No. Sat Feb 17 15:04 PST 2001.

"I'm an old timer (20 + years) and I remember times when cutbacks came. Bill and Dave thanked their people when we all pulled together to get thru the rough times. This cut-throat doesn't care about her people, the morale, the



deterioration of the company as a whole. She cares about her money, which is really OUR money, her pink jet and her yacht.”

Subject: Take away Carly’s corporate jets! Tue Feb 13 06:15 PST 2001.

“Why have us sacrifice our FTO so she can pad her numbers for Wall Street! Better to take away her 2 corporate jets! Where is her sacrifice? The BOD must get rid of her!”

Subject: Get on this team with all your heart and, Mon Mar 05 15:36 PST 2001.

“HP has completely lost its shining soul, I’ve never seen anything like this even in the worst times at other companies, HP is just awful. Before you say those words, “love it or leave it,” guess what, I’m leaving it. It makes no sense to sound off when the CEO has no idea how miserable people are----Now I can’t wait for my last day.”

While these extracts cannot be viewed as representative of all HP employees they do triangulate with the previous analysis and therefore the assumption can be made that they are representative of a significant minority of employees at the very least. There is clear evidence in these extracts of perceived violation of the psychological contract and employee anger. Furthermore, closure of this particular message board backfired spectacularly on HP senior management as employees just sought out other external channels to vent their anger such as the HP Stockholder sites on *Yahoo.com* and *Quicken.com*. HP’s communications manager, Allison Johnson had demanded the HP internal site be taken down in an effort to shield Fiorina from hostility which was similar to the new HP approach of refusing interviews to perceived hostile journalists (Burrows 2003). However, instead of containing employee anger in-house and being able to measure the degree of hostility Johnson allowed employee anger to go outside of the company. This decision appears questionable from a communications specialist particularly as *Yahoo* messages can be accessed from some years before and therefore remain available now. Extracts from some of these *Yahoo* messages are shown below,



Msg: 59183, 08/09/01.

Disgruntled ex employee...

"I will have a nice day (thank you) since I left HP over a year ago and am now employed doing the work that I love (as I was initially hired to do at HP) with raises, a real bonus and no impending threat of layoff.

By the way, I strongly encourage everyone I see on the street to avoid HP products like the plague..."

Msg: 62714, 30/08/01.

"Once a strong Fiorina supporter, I'm now an avid opponent, however she didn't have a choice but to hire outsourced experts to perform the dirty layoff deed."

Msg: 70325, 10/10/01.

"On Monday, August 20<sup>th</sup>, I learned that my 18 year career at HP would end on Friday, August 24<sup>th</sup>. I was absolutely shocked and completely taken by surprise. I had been ranked as a consistent and strong performer every year, and had been rewarded for my performance often. Why me?" (Carol Moses, used with permission).

The *Yahoo* message board contains a few supporters of Fiorina but mainly detractors and the controversy continues on this site to this day, for example a later message is shown below,

Msg: 172418, 12/04/02

"As a Bay Area HP employee, I am asked to attend Carly's talk tomorrow. I expect that we're going to get two hours of the "Carly Show" where she gets to talk about synergies, diversity, market share and re-invigorating the new HP. While I can understand the need to try and motivate the workforce, attending an ego-building session for a fraud like Fiorina won't do it for me. Quite the opposite, in fact. For those of you who will be attending, keep in mind that there will be numerous pictures taken of the masses cheering Carly. And make no mistake about it, this meeting is about Carly, not HP. These pictures will certainly be posted on the portal and will be used by her PR spin machine for some time, even after she has left HP. So, if you don't wish to be a party to this blatant act of grandstanding by our incompetent CEO, I urge you not to attend. Empty seats will send the clearest message."



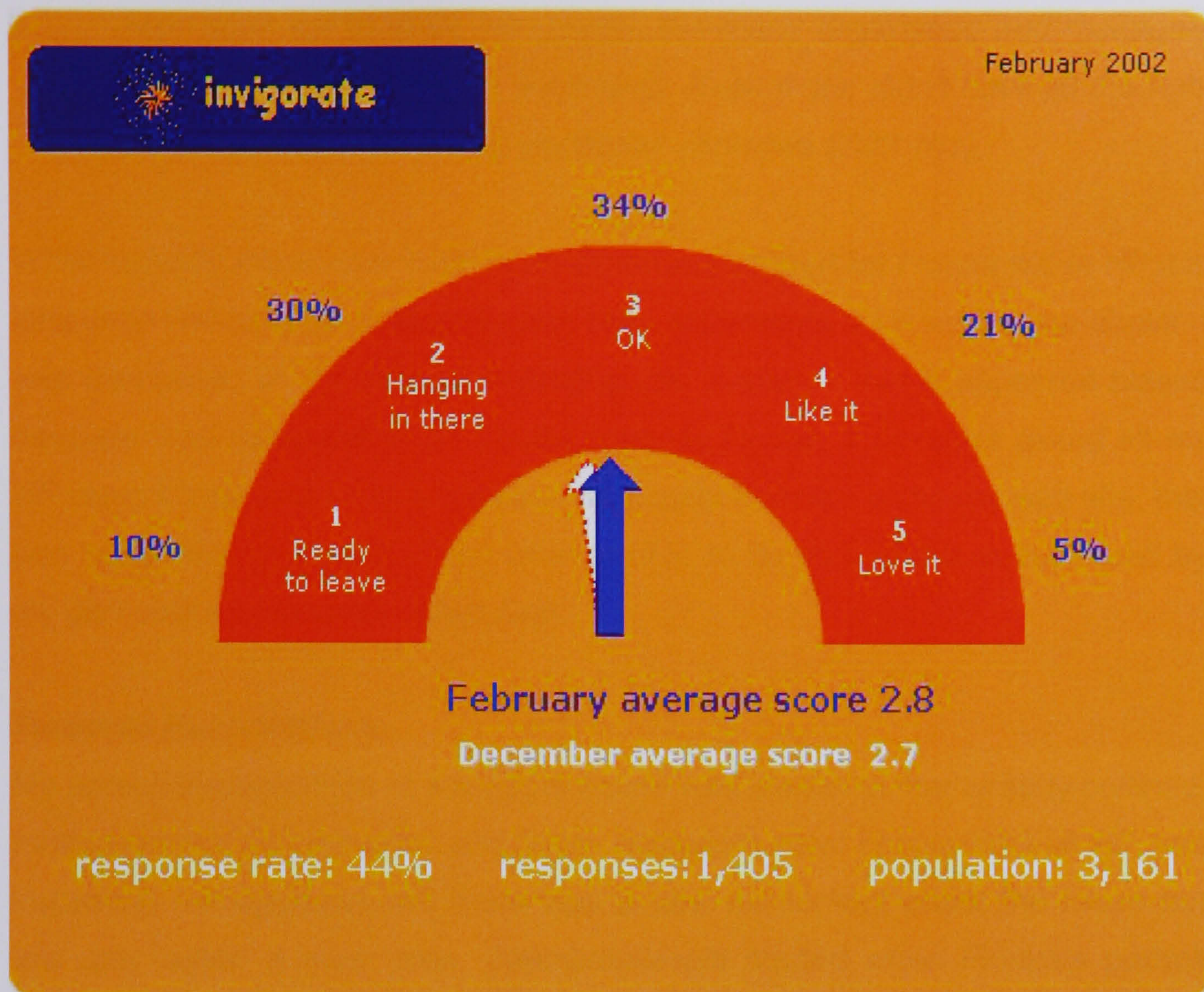
This is yet another example of employee anger being vented in the public domain and again calls into question the closure of the internal HP message board. However, the question can be asked, “why is all of the foregoing relevant when Fiorina had already assumed that 20% of the workforce would leave anyway?” One answer to this is the perceived destruction of the HP employment brand which prior to Fiorina’s appointment had been strong as shown by a balanced, relational psychological contract and the low attrition rates identified earlier.

*“Successful brands require consistency between what organisations say and do. Our post-deferential age is highly suspicious of claims made by organisations, and this is likely to continue: people will need to be convinced” (Moynagh and Worsley 2001:230).*

This quote is interesting as it links with the Argyris and Schön (1978) proposition of espoused theory and theory in use from chapter one and, by implication, attacks the shift in HP from a perceived totally ethical company to one with questionable ethics. Effectively what Moynagh and Worsley (2001) are claiming is that the employment brand must be consistent with the consumer brand, for example, organisations that profess to be consumer friendly but fail to achieve an employee friendly environment will be sending insincere messages to their consumers and “contaminating their brand” (Moynagh and Worsley 2001:230-231). This is also interesting from the psychological contract perspective as the trend identified earlier was towards transactional contracts but this view implies a return towards a more relational contract environment in the future. The analysis so far has been predominately of the wider HP but is there any specific evidence in HP UK to indicate employee resistance?

Figure 2 below shows the most recent result of testing the morale of HP UK employees gained during the research period. The question asked was “how are you feeling about working at HP UK today? This result from a corporation previously renowned for employee commitment (Pfeffer 1994:246-247) is surprising and is indicative of the erosion of the HP-Way and the relational psychological contract between HP UK employees and HP. Significantly this survey was not continued after the Compaq acquisition was completed. The uncertainty caused because of the duplication of roles and subsequent elimination of employees may have contributed to this but this is discussed in more depth later.





**Figure 2. UK & Eire Temperature Check Results, Source: HP Intranet.**

The analysis of Fiorina's performance and employee resistance so far is generally negative but to ensure this research cannot be perceived as biased I will now present any contradictory evidence to ensure a balanced approach.

### **Support for Fiorina**

The changes implemented by Fiorina had clear support from the HP board, though Lew Platt had expressed some serious reservations, but lower level managers undermined her by agreeing with everything she said then failing to act (Anders 2003). Apart from the HP board there is very little evidence of support for Fiorina at this time, indeed, the press saw "Carly in trouble" as a headline-grabber and analysts questioned her performance because of the falling stock price and faltering reinvention (Anders 2003:123; Burrows 2001). However,



*“Certainly not everyone was souring on Fiorina, nor would they. Reality may have set in since her arrival, but many employees and managers remained inspired by her leadership. Even if she didn’t have all the right answers, she was making decisions” (Burrows 2003:161).*

While logically there must have been continued support for Fiorina within HP it is difficult to find tangible evidence apart from statements such as the one above. I was concerned at the time of collecting this evidence that it appeared biased because it all appeared to be hostile towards Fiorina. I therefore asked all my HP team if they could find any evidence, except from the company web site, that was supportive of Fiorina. They were unable to do so and this is confirmed by my personal recollections noted next.

### **Personal Recollections**

My personal recollection of the appointment was similar to that already outlined. In discussions with my team and fellow managers most people felt that HP was becoming reinvigorated and there was a new excitement about the future but this only lasted a short time. Disenchantment started when Fiorina’s portrait began appearing in HP building receptions alongside Bill, Dave and Lew Platt. Many people felt she had not yet earned that right and jokes started about guessing when the first Stalinist type statue would appear outside every building. The derision continued when the “Travels with Carly” web site appeared on HP’s primary employee information site. This particularly rankled because the image of a massively overpaid “Rock Star” CEO gallivanting about on private jets directly contrasted with the low key, money saving approach of Lew Platt. It also made a mockery of all the intense efforts of everyone who had been working on cutting costs and making operations more efficient. Before, my team had been proud when they squeezed another few cents per unit from a supply chain or merged activities to eliminate another quarter or half a contract head. Now they wondered why they were bothering.

More jokes started about translating any cost savings into buying a few more gallons of jet fuel or a new turquoise paint-job for one of the private jets. Other jokes related to the savings made by making any individual redundant would be paying for a new carpet for one of the jets and the beautician’s salary. This humour was the way people coped with the growing disillusion and declining motivation as HP people witnessed the values they cherished being gradually



eroded by someone they felt was betraying Bill and Dave's legacy and thus violating their relational psychological contract with HP. Another example of humour being used took the form of a riddle, "who or what is the most effective HP CEO, a chimp, an amoeba or Carly?" Answer, an amoeba because it would not be able to communicate a bad decision! In other words many employees perceived that everything Fiorina did was negative and HP would be better off without any changes at all. Other comments such as how did we get a trainee CEO and when will she be up to the job were heard constantly.

People began discussing leaving the company and as previous redundancy packages had been viewed as generous my HP team began asking about this. Of my original team of six HP employees, one had taken early medical retirement in 1999 and three volunteered and were accepted for redundancy during 2001. There were no savings here though as all the work was outsourced so additional hiring took place with the service providers. Additional information recorded in my research diary reflects the mood of the time, for example,

21/12/2000

JD, I'm leaving HP to join a company that HP was like 8 years ago. The package was too good to turn down. I woke up at four this morning and said to myself, "what have I done?" Then I realised all the aggravation and negatives of HP and realised I'd made the right decision (used with permission).

08/03/2001

Overheard in coffee area, (new sales rep, unknown to me) "I've just left one shit IT company (Compaq) only to join another, (HP).

05/07/2001

Sales people conversation discussing a rounders match after a sales meeting. They are paying £10 each to fund this, doing their own cooking. Jokingly, (my assumption) discussing beating the EC with their rounders bat and knocking Carly's corporate jet out of the sky. All female group! (Overheard in open coffee area).

Of course, this evidence can be defined as anecdotal and biased because it is based on my personal reflections and personal recording, however it does



triangulate with the evidence above from many independent sources and should therefore be interpreted in that way. The analysis now moves on to the Compaq acquisition which was to fundamentally impact on HP's psychological contract with its employees and polarise the positions of Fiorina's supporters and detractors.

### **The Compaq Acquisition**

During the first quarter of 2002 the biggest and most costly proxy battle in American corporate history was fought by Hewlett-Packard's CEO Carly Fiorina and one of the founders' sons, Walter Hewlett. The battle was ostensibly over the acquisition of Compaq Computer Company but some observers viewed this as a battle between the old and the new or who was the rightful heir to the founders' legacy (Anders 2003). This battle affected employees and contractors as they internalised data from multiple sources and speculated about their futures and positions thus affecting their psychological contracts with HP.

*“Despite overwhelming evidence that mergers fail to deliver anywhere near promised payoffs, companies in every industry continue to see mergers and acquisitions as the answer to their problems” (Tentenbaum 1999:23).*

Why did Hewlett-Packard acquire Compaq? What was the motivation and what were the consequences? To answer these questions it is important to understand the dynamics leading up to the acquisition which were noted earlier but are reiterated here to remind the reader. Fiorina was hired to reinvigorate the company as Platt, the previous CEO and the board had identified serious weaknesses such as HP's “fading fortunes, lack of strategic vision and urgency” (Anders 2003:57, 83). A change in the board's policy from a traditional force of constraint and prudence to a war council pushing for change was a reflection of the transition from the founding families influence and values to a new order where a “giant acquisition” was viewed as a possible strategic fix (Anders 2003:83). This resulted in the HP board examining various options such as acquisition of Kodak and Xerox. The first acquisition target was the consulting arm of Price-WaterhouseCoopers (PwC) but investors and analysts were opposed to this because of the risk of consultants leaving and the price. Significantly HP was prepared to pay more than \$18 billion in September 2000 while IBM paid \$3.5 billion in 2002, which reflected on the market credibility of



HP management (Burrows 2003:168). Progress on the PwC acquisition was halted when poor results for the fourth quarter were announced by Fiorina in November 2000 (HP6).

The next major proposed acquisition was Compaq which was opposed from the start by Walter Hewlett and was “absolutely despised” by investors resulting in a rapid reduction of market capitalisation of \$13 billion dollars for HP and Compaq (Burrows 2003:186). The justification for the Compaq acquisition by HP was contained on three slides Fiorina presented to the HP board during the 19<sup>th</sup> July 2001 meeting, firstly the current HP PC position was unsustainable and secondly the server business was losing momentum. Some McKinsey consultants then described how HP and Compaq complemented each other and could produce cost savings of two and a half billion dollars US by fiscal 2004 (Anders 2003:126). Another justification was the perceived ability to compete with IBM “head to head” but doubts were voiced of the risk to sales and that investors would dislike the deal (Anders 2003). After the announcement hostile comments began to fly as investors competed for the best insulting metaphor to describe the deal. These metaphors included, “two drunks trying to hold each other up,” a “cross between a turkey and an albatross,” and from Scott McNealy, CEO of Sun Microsystems, “a slow-motion collision of two garbage trucks“ (Burrows 2003:186). However it can be argued that comments from competitor company CEO’s are fundamentally biased. Nevertheless, the Compaq acquisition by HP was viewed as an opportunity by competitors as demonstrated when Dell’s CEO stated, “the track record on these large mergers and consolidations is not good, we see it as more of an opportunity for us than a risk” (Cowley 2001: online). The resulting plethora of comment from Wall Street analysts other commentators and investors began to further reflect on Fiorina’s credibility as a CEO and this is analysed next, beginning with an example.

*“The first fact is that investors clearly have voted against the merger with their feet. Both stocks have been in virtual freefall since the September 3rd announcement. On days where technology or the market has dropped CPQ and HWP have led the charge. However, on days of recovery your stocks consistently have not participated. Simultaneously your competitors exhibit unbridled enthusiasm for the merger. They see themselves gaining great competitive advantage and none has expressed concern for the competitive challenges posed by the*



*combined entity. (Extract from a letter to the CPQ and HWP boards from David A. Katz, CFA Chief Investment Officer, Matrix Asset Advisors, October 16<sup>th</sup> 2001).*

This first example from the analyst and investor community shows why they disliked the merger proposal particularly as shareholder value was being eroded so quickly, indeed “investors dumped HP shares in droves” and “HP’s humiliation on Wall Street was intensifying” (Burrows 2003:189, 195). The next example shows what happened to HP morale as all the uncertainty of the merger and other changes began affecting employee psychological contracts with HP.

*“HP Vice-President for Human Resources Susan Bowick concedes that morale statistics are now “lower than we’ve ever seen them” (Burrows December 24<sup>th</sup>, 2001, Business Week Online).*

This extraordinary admission from Bowick reflects and triangulates with many of the examples noted earlier from HP’s internal web site and other sources. But were HP employees supportive of the merger or not? There is conflicting evidence, for example, in surveys requested by David W. Packard, (former HP board member, Dave Packard’s son and trustee of the Packard Foundation), 64% opposed the merger and 67% said HP was a worse place to work than when they started working there (Burrows 2003). One of the merger survey results is shown below,

*“A survey commissioned by David W. Packard finds that Hewlett-Packard employees in the Corvallis, Ore., area oppose the Compaq Computer merger by a two-to-one margin. The survey of 445 employees, conducted by Field Research, found 38 percent of workers strongly oppose the deal, 25 percent of workers somewhat oppose the deal, 20 percent of workers somewhat favor the deal and 11 percent of workers strongly favor the deal. Some 6 percent of workers had either no opinion or declined to state” (Fried 2002: online).*

However this result was challenged by HP’s Robboy who claimed the survey was unrepresentative and defended HP’s survey methods with the following,



*"Robboy said a more recent survey of workers throughout HP, which included the "somewhat unsupportive" option still showed a majority of workers in support of the deal. "Our latest employee pulse data shows that 66 percent of employees support the merger," Robboy said. HP defended its polling method as professional. "We stand by our survey results," Robboy said. "We regularly pulse employees at different levels in different geographies and workgroups about their views of the merger through a third party using professional polling standards" (Fried 2002: online).*

This was symptomatic of the communication in HP at this time before the shareholder vote on the merger. HP employees were being sold the benefits of the merger by HP management but were becoming increasingly cynical (Burrows 2003) which is an outcome of psychological contract violation noted in chapter two. The announcement by Walter Hewlett that he would be opposing the merger in November 2001 was greeted enthusiastically by employees and investors alike, the stock price rose 17% that day and many employees viewed Walter Hewlett as a corporate saviour who would kill the merger and get rid of Fiorina (Burrows 2003). However, many employees wrote to Fiorina to express their support (Burrows 2003) so it is difficult to accurately assess the level of support either for or against the merger at this time. What is evident though is the polarisation of support into two opposing groups, firstly HP's management in support of the merger and secondly the Hewlett and Packard Foundations together with many large US state pension funds, HP retirees and alumni represented by Walter Hewlett (Anders 2003). The battle culminated in a meeting at the Flint Centre in Cupertino, California on March 19<sup>th</sup> 2002 where the result of the shareholder vote was announced as slim but sufficient in favour of Fiorina and the pro merger group (Anders 2003; Burrows 2003). The battle was not over however as Walter Hewlett filed a lawsuit claiming that HP had coerced Deutsche Bank to vote most of its shares for the merger and HP had hidden integration problems that may have caused investors to vote against the merger (Burrows 2003; Hyman 2002; Malone 2002).

The three day trial commenced on 23<sup>rd</sup> April, 2002 and Judge Chandler released his opinion a week later ruling in favour of HP and Fiorina (Anders 2003). The vote tally would stand with 838 million votes in favour and 793 million against the merger or 51.4% to 48.6% (Anders 2003:205). However it can be argued this



was a pyrrhic victory for Fiorina as employees had been leaking voicemail, e-mail and other sensitive documents to the press and Walter Hewlett's lawyers indicating the breakdown of loyalty in HP (Burrows 2003). A voicemail from Fiorina to Wayman, HP Chief Financial Officer, leaked to the *San Jose Mercury News* was particularly significant as,

*“the leak was a tragic example of just how broken HP's culture was. At HP, where loyalty to Bill Hewlett and Dave Packard had always been taken for granted, someone from the rank and file had turned on the CEO. This would have been shocking in many companies. At HP it was unthinkable. That special bond between HP's management and its employees seemed shattered” (Burrows 2003:250-251).*

This is another example of an outcome from perceived psychological contract violation which illustrates the danger for companies as mentioned earlier (Herriot et al. 1997). The Deutsche Bank controversy that resulted in Judge Chandler questioning their integrity (Anders 2003) culminated in a \$750,000 US fine by the US Securities and Exchange Commission, (SEC) for failing to disclose a material conflict of interest during the merger vote (Andrejczak 2003). While the last minute switch of 17 million votes for the merger by Deutsche Bank would not have affected the final outcome the ethical position is questionable particularly from the HP perspective as Deutsche Bank was awarded business with HP that led to the SEC fine (Andrejczak 2003). Perhaps the true irony of the merger outcome is that Walter Hewlett could have won the battle if he had simply bought more HP shares but he regarded that as unethical as contrasted with Fiorina who sold \$2.3 million US worth of HP shares while the Compaq talks were underway and thus had inside information (Burrows 2003). Though this sale was legal it was entirely unethical according to Walter Hewlett (Burrows 2003) and reflected the changing ethics of HP.

This brief analysis of the merger process has only focused on the most important areas but there is a significant amount of other data available that will necessarily need to be excluded. However the key observations here are the change in HP's ethics, the estimate that approximately half or more of HP employees were opposed to the merger and the dubious nature of Fiorina's ethics. A final comment on Fiorina from the investment community probably captures the feelings of many employees and investors about the merger,



*“In a wiser world, Ms. Fiorina would have been fired soon after Wall Street sneered; or at least when it became obvious that the merger was more popular with H-P's competitors than with its own employees. But then, the closest most H-P employees have ever been to Ms. Fiorina is watching one of her videos” (Malone 2002: online).*

Now HP is merged with Compaq, and has been trading for over two years in this new form, the question arises, did the merger work or was it the failure that many predicted?

### **Results of the HP/Compaq Merger**

It is difficult to assess the overall results from the merger. From the employee perspective HP has failed to make the top 100 of best places to work in a survey conducted by *Fortune* magazine in 2004 and this is obviously a problem for HP as shown in extracts from yet another leaked e-mail shown in Appendix A (Demerjian 2004). Additional evidence gained from two discussions I had with HP employees before I left and subsequently are shown below.

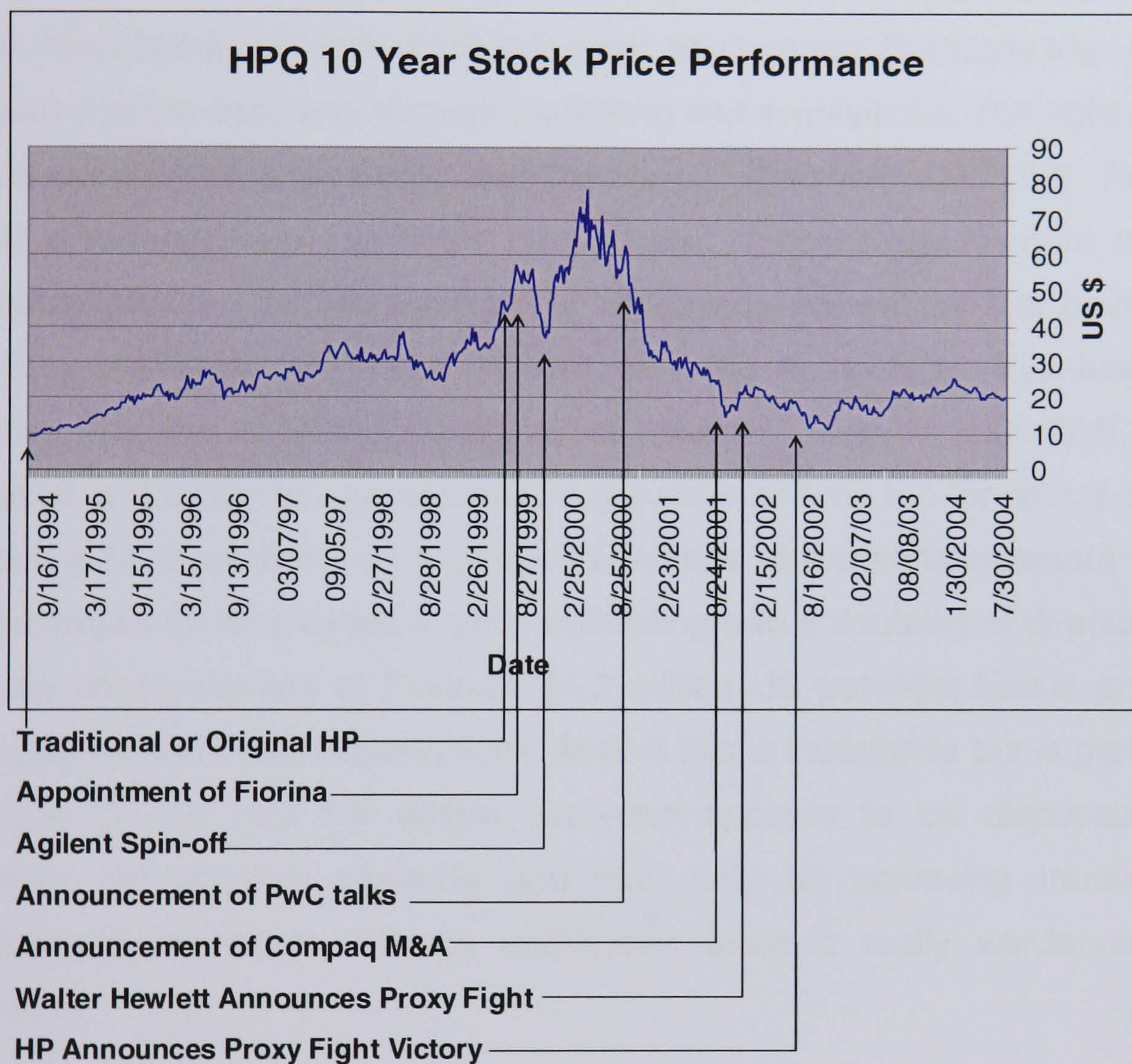
The first discussion was with a senior HP technical employee who mentioned that he was now the only employee left in HP that understood a critical customer facing process. His expectation at the time was that “HP will probably get rid of me” in eighteen months when the project was scheduled to complete. His dilemma was that now he was in a really strong position should he threaten to resign to gain a significant salary increase or take the risk that things would improve within HP and his employment would continue after project completion, (used with permission).

The second discussion was with a HP support employee who had voiced his concerns to his manager about salary freezes, declining benefits and the overall uncertainty within HP. The manager responded by asking, “what can I do to improve things?” The response, “give me the redundancy package and I’ll go.” The employee was informed that redundancy was highly unlikely, (used with permission).

While I am not claiming these examples are representative of HP generally, they are indicative of the risks to employers when employee commitment to the organisation dissipates, potentially caused by perceived violation of the



psychological contract. This may become clearer during the analysis of interviews and other data in later chapters particularly chapter seven, however, these examples triangulate with other data presented earlier. What is clear is that morale remains low in HP and the damage done since Fiorina's appointment, during the merger process and subsequent to the merger is recognised as a serious problem by senior HP management as confirmed by the leaked e-mail in Appendix A. Before commenting on the financial results of the merger a ten year share price graph and major events stated above are shown in Figure 3 below.



Share prices based on weekly closing prices, (Source: CNBC Money)  
<http://moneycentral.msn.com/investor/charts/chartdl.asp?Symbol=HPQ>

Note: the stock price includes other external variables such as the September 11<sup>th</sup> terrorist attacks and the global tech-industry downturn in 2001. Stock prices may also differ from some quotes in the text because of a recalculation caused by the Agilent spin-off.

Comparative company share price performance is shown in Appendix B.

**Figure 3. HP 10 Year Stock Price Graph and Major Event Timeline**



From the financial perspective the last quarter's results were received negatively by the investment community and the HP share price continues to underperform its competitors (Appendix B). The merged Personal Computer business continues to struggle for profit (Appendix B) so while HP is now potentially a \$80 billion US revenue company its profitability continues to fall short of Fiorina's original merger justification of profitability of \$6.9 billion US (Burrows 2003:254) and reinforces the wisdom of Bill and Dave's HP-Way profit objective. So is there a future for HP or will it be broken up and sold off as one investment analyst has speculated (Milunovich 2004)?

Perhaps the best way of answering this is a quote from Harvard Professor David Yoffie, "the historic strength of HP is in basic engineering. But Carly tried to build the business the easy way through marketing and acquisitions. The right answer was to go back to engineering and innovation" (Burrows 2003:267). However this is countered in a statement from Fiorina, "Technology is more than an engineers game.....if you think about technology companies that have really led, they didn't fall too much in love with the technology. Eventually she believed, the rest of Silicon Valley would catch on" (Anders 2003:224). Which viewpoint is the correct one will only be proved over time but for now the jury is still out! A final comment on the new HP relates to the announcement of zero pay increases for employees in 2004 coinciding with a doubling of directors fees and the announcement of Fiorina's \$4.2 million US potential bonus and 40% base pay increase (Demerjian 2004). At best this is insensitive but is probably a reflection of the new HP where everyone appears to be disposable and therefore HP appears uncaring and may only be achieving transactional psychological contracts with its employees when it really wants relational contracts.

*"HP appears to have lost its way just when the world was hankering for the HP that was---a company that erred on the side of fiscal conservatism, had a deep commitment to its employees and increased its stock price by delivering real results, year in year out, rather than through deal making or hype" (Burrows 2003:267).*

The merger process affected my own position with HP resulting in my displacement and this is discussed next.



## **Displacement**

Displacement is another euphemism for redundancy which also includes terms such as voluntary or involuntary severance and layoff. The net effect is the same, it results in an employee losing their employment and severing their connection with their employing organisation. My role in REWS of managing the UK logistics, security and print functions was distributed among other functions and geographies by restructuring, technological change and geographic dispersal. Essentially my role had disappeared and I was interviewed by the new ex-Compaq manager for the new roles in the organisation. I and my colleagues believed this process to be divisive as all of your previous history and achievement with the organisation was now irrelevant. If there was a perceived mismatch between your skill-sets and the new roles then you were offered the severance option after being offered an opportunity to apply for any other available roles. There was also an appeals process if an individual felt their selection was unfair.

From my personal perspective I had wanted to apply for the voluntary severance option a year earlier when the terms were more generous but it was indicated to me by my manager that my request would be rejected. The reason for wanting to exit the organisation was my disillusion over the strategic changes in the company which I personally viewed as destructive and naïve. Moreover I had already discussed my concerns with the changes in HP with my manager as I felt my values and HP's values were no longer compatible. My personal position therefore is a HP traditionalist who lived the HP-Way and voted with and supported, as a shareholder and employee, Walter Hewlett's anti-merger stance. It was also preferable to remain with HP for another year to complete my research rather than have the disruption of trying to complete this from outside of the organisation or modify the research to include another organisation. From a relational psychological contract perspective I can state that the traditional HP was more than a job to me. I was proud to be an employee of the old HP, to live its values and over-invest my personal time when necessary to help fellow employees or customers. Conversely I became disillusioned when the changes began and in retrospect my personal psychological contract with HP probably began to change to transactional within months of Fiorina's appointment and certainly after agreeing to the pay-cut only to see the redundancy programme announced shortly afterwards. My personal opinion is HP will not be able to regain a relational psychological contract with its employees because the



damage to the employee relationship is too severe and the markets HP is aiming to dominate have too low margins to fund any return to the benefit levels of the past. However, this is my opinion which can be perceived as biased. This completes the brief analysis of HP which is summarised next.

### **Summary**

This chapter has analysed the formation and development of HP before July 1999 which is labelled as the old or traditional HP and has tried to capture what differentiated HP from the employee perspective and made it successful. The new HP was then examined and any identified comparative changes have been analysed. Declining ethical standards are identified from both HP management and HP employees that indicate a breakdown of the HP-Way and the original relational psychological contract that HP had with its employees. Results from the merger process remain uncertain and HP employee morale is probably at its lowest ever level. The pyrrhic merger victory that Fiorina achieved over representatives of the traditional HP has yet to prove its value and there is strong evidence of loss of employee commitment and loyalty. I have described how my own position in HP was affected by the merger and the circumstances leading to my severance from the company. We now move on to chapter four to understand methodological choices and how the research was conducted.



## Chapter 4

### Methodology

#### Introduction

This chapter continues the brief methodological outline from chapter one, clarifies the research approach from practical and philosophical perspectives and justifies inclusion and exclusion of methodologies. Research methodologies should fit the research problem, research aims and theory base while accepting that more than one methodology can be applied to most problems (Davis and Parker 1997:68). The chapter continues with how data was collected and coded including secondary data for triangulation. A discussion of ethical issues encountered during the research is presented both to act as a guide for further research and to ensure participant contributions are analysed and reported rigorously and appropriately. The research was conducted within an action research paradigm and this is discussed next.

#### Action Research

An action research paradigm was selected as the primary methodology for this research as,

*“AR is carried out by a team encompassing a professional action researcher and members of an organization or community seeking to improve their situation. AR promotes broad participation in the research process and supports action leading to a more just or satisfying situation for the stakeholders” (Greenwood and Levin 1998:4).*

While it would be presumptuous of me to label myself as a professional action researcher I have followed the principles of action research and assumed this role. Broad participation in the research process is demonstrated by interview participation of all interviewees requested to participate and the free sharing of information and contributions from all members of my team who were aware of my research intent. The stakeholders in the process apart from me are HP, their contractors and employees who would all potentially benefit from a stronger understanding of current practice and any improvements to practice that may result. Again, at the risk of being perceived as presumptuous, the general academic community and management practitioners who are researching in this area may benefit from any subsequent published papers or access to the final



thesis assuming a genuine contribution to knowledge and management practice is achieved. But what is action research?

Three conditions are individually necessary and jointly sufficient for action research to be said to exist according to Carr and Kemmis (1986),

1. A project takes as its subject matter a social practice regarded as a form of strategic action susceptible to improvement.
2. The project proceeds through a spiral of cycles of planning, acting, observing and reflecting.
3. The project involves those responsible for the practice in each of the moments of the activity.

Kember (2000) has distilled seven components from the above three conditions and these will now be analysed and related to this research project.

AR is concerned with social practice – management of a function in HP is a social practice with interaction between management, employees, customers and contractors.

AR is aimed towards improvement – while gaining a stronger understanding of HP and REWS activities and interactions within the research environment, the research produced improvements from a management practitioner perspective in the first two cycles. These improvements are discussed in depth later but it is sufficient to state at this point that implementation of the improvements and feedback internally from HP and from some external sources validated that improvements were made. Results from the third cycle were produced after leaving HP so any improvements resulting from this will be difficult to evaluate while writing this thesis. Nevertheless my intention was to have implemented any identified changes that would have been beneficial from the management practitioner perspective resulting from cycle three if my employment with HP had continued. However, if any results are available they will be added as a post-script. There is also the objective of making a contribution to knowledge.

AR is a cyclical process – three cycles of research have been conducted meeting this component and reflections from this have guided and informed the cycles.



AR is pursued through systematic enquiry – rigorous systematic enquiry is essential to refute perceptions of AR being soft or imprecise. The research has followed recommended practice and aims to be as rigorous as other research paradigms.

AR is a reflective process – reflections on cycles of research have identified new questions and changed the research direction.

AR is participative – while there are differing views on the group or solitary approaches to AR (Kember 2000:28), this research began as a solitary approach and developed to a group approach. As noted earlier, the unanimous willingness to be interviewed and constant information sharing by the REWS team demonstrate participation. Further, adoption of proposed improvements by contractor managers, from the management practitioner perspective, is also indicative of participation. A typical example of unprompted information sharing is direction to certain web site messages and e-mails, conveying overheard conversations or any other information that related to this research.

AR is determined by the practitioners – accepting that substantial steering and guidance by academic supervisors has occurred, I originated the research direction while some constraint on scope is acknowledged.

The above components show how the research followed AR methodology but with the first cycle there was one key difference. According to Flood and Romm (1996:135) “it is more fitting within an AR agenda to pose a central question which the action researcher seeks to answer.” Effectively there is no central question in the first cycle as the research aimed firstly to understand and assess the cultural intersection between HP and one of its contractor companies. Secondly, to understand and assess employee and contractor perceptions of business models and characteristics of business models within a cultural context. Finally, arising from the understanding and assessment, to identify and recommend characteristics of an ideal or robust business model and to implement this within the HP REWS organisation. However, a central research question arising from the first cycle was produced for the second cycle once the data had been analysed and assessed. This question was, “are contractor and host management attitudes changing as outsourcing matures?” The third cycle again differed from Flood and Romm’s (1996) recommendation by not asking a



central research question but sought to understand the impact of the merger on employees and contractors which has resulted in the central question for this final part of the research. However, all three cycles are designed to achieve the objectives outlined in chapter one. Now Kember's (2000) components have been related to the research the question arises of, why action research and not another methodology?

Action research "is almost universally viewed with Olympian disrespect by conventional social scientists, who see it as unsystematic, atheoretical storytelling" (Greenwood and Levin 1998:75). Obviously advocates of this methodology would dispute this, for example, action research tends to address more complex problems than conventional social sciences and demands that theory and action are not separated (Greenwood and Levin 1998). A more robust defence of action research is shown below,

*"AR is neopragmatism in social research, an attempt to keep the conversation going and to democratize our society further. Like pragmatism, AR has met with unflinching resistance of the epistemological project and positivist social science for whom taking pragmatism seriously would bring about the end of the academic world as they know (and profit from) it" (Greenwood and Levin 1998:87-88).*

This democratic or liberational quality of action research is interesting as it tends to imply that a relational psychological contract between employer and employee is necessary for action research to be successful in an organisational setting. A transactional psychological contract may tend to generate the wrong environment because of the temporal and interactional qualities needed for success. For example, the cycles of action and reflection and the participation of individuals (Kember 2000; Kiely and Ellis 1999) may be difficult in organisations where employee tenure is uncertain and the employee feels disposable (Byrne 2001). This leads to the conclusion that action research may only be suitable for certain types of organisation but particularly where a relational psychological contract is in evidence. This is confirmed to some extent by Kiely and Ellis (1999) who argue that the business climate must be right for action inquiry strategies to be successful. Now that action inquiry has been mentioned it is important to clarify this in relation to action research.



## **Action Inquiry**

Action inquiry is the collective term for four differing types of inquiry which are; action learning, action research, participatory action research and action science (Kiely and Ellis 1999). Action learning is a developmental approach to management learning where groups of peers meet to solve individual work based problems (Kiely and Ellis 1999) and is based on “pedagogical and andragogical belief that people can and should learn more effectively in real-time problems in their own work setting” (Koo 1999:90). This type of learning is quite common in HP although the label of action learning is seldom used, for example, monthly cross functional meetings were held by HP UK REWS where problems were discussed and projects organised if problems could not be solved during meetings. Successful achievement of projects is the way in which an action learning approach is judged (Kiely and Ellis 1999). It can be argued that HP was an ideal setting for action learning because of its egalitarian nature (Johnson 1998).

Action research was analysed earlier but from a justification perspective, is typically led by managers in the workplace setting and is characterised by projects and involvement of all affected by the project (Kiely and Ellis 1999). Action research is judged by its success in improving professional practice or situations (Kiely and Ellis 1999).

Participatory action research is a set of theories and practices that seeks to bring about change in the lives of people which they initiate themselves (Kiely and Ellis 1999; Greenwood and Levin 1998). This approach tends to have a political element as it focuses on social change or improvement (Kiely and Ellis 1999; Greenwood and Levin 1998) and was not considered as a suitable approach for this research.

Finally, action science “aims to improve action by studying and changing reason” (Kiely and Ellis 1999:33). Action science is attributed to Chris Argyris and Donald Schön (1931-1977) and seeks to advance basic or theoretical knowledge while simultaneously solving practical problems in organisations and communities (Schwandt 2001). This immediately raises the question of, “is the research conducted here action science in addition to action research?” It appears that some elements from all action inquiry strategies are incorporated in this research and from a functionally purist perspective Ellis and Kiely (2000)



propose the research can be positioned between the four identified inquiry types. However this research is predominately action research as defined above, i.e. led by a manager in a workplace setting. The question arising from the foregoing is why is the action research paradigm particularly appropriate for this research? Additional to the earlier justification is the research design where HP employees and contractors *participated* in the research process. While the distinction between participatory action research and employees and contractors participating in this research was made earlier the fact remains that action research was the ideal methodology to capture the input from participants rather than conducting a purely observational study. In my view this allows the capture of data and perceptions that may otherwise be missed in other methodologies. This now leads on to examining the case study approach and this is presented next.

### **A Case Study Approach**

The action research paradigm and the case study approach are both criticised as soft and imprecise (Greenwood and Levin 1998; Yin 1994) which tends to link them because of the necessity of proven rigour in the research process to refute this criticism. But what is a case? As noted in chapter one, the research structure is a case study approach within an action research paradigm. Yin's (1994) definition is expanded upon by Gillham (2000 b:1) who attempts to define a case as, "a unit of human activity embedded in the real world, which can only be studied or understood in context, which exists in the here and now and that merges in with its context so that precise boundaries are difficult to draw." Miles and Huberman (1994:25) abstractly define a case as a "phenomenon of some sort occurring in a bounded context." They also make a clear distinction between the heart and indeterminate boundary or edge of the case. The heart or focus of this case is the employees and contractors within the HP UK REWS group but where is the boundary or edge? HP as a corporation and input from employees and data sources outside of REWS are included for triangulation and background. Perhaps outlining what is not included in the case will help clarify the research unit. Service provider companies, the wider corporate world and the global REWS organisation outside of the UK organisation are excluded unless a specific information item helps clarify or contradict a given response or situation. Arising from this is the question of why use a case study approach as compared to other approaches?



A case study approach seeks to answer a research question where a wide range of evidence is available for collation and abstraction to get the best possible answer and no one kind of source of evidence is likely to be sufficient alone (Gillham 2000 b). A key characteristic of case study research is the use of multiple sources of evidence each with their strengths and weaknesses (Gillham 2000 b). This tends to agree with Greenwood and Levin's (1998) view of the action research paradigm where more complex problems are addressed by this methodology. Case studies can be based on any mix of quantitative and qualitative evidence and regardless of individual preference there is a strong and essential common ground between them (Yin 1994). Further, case studies are the preferred strategy for "how or why" questions (Yin 1994:1). Similar to the action research paradigm, the question arises of why is the case study approach particularly appropriate for this research? There is a similar answer, the participation of employees and contractors and the research design itself where multiple sources of evidence are examined that can be triangulated make the case study approach the most appropriate method. Again, limiting the research to purely observational methods would have potentially missed important data and perceptions. Data collection for this research was predominately qualitative and the reasons for this are discussed next.

### **Qualitative Research**

A predominately qualitative rather than quantitative research approach was adopted for this research because of survey fatigue within HP UK. During the nineties and continuing into the new millennium, numerous support functions within HP UK automated their internal customer response survey process. For example, every time an individual reported a problem electronically via e-mail to one of these support groups an electronic survey form would be issued via e-mail when the problem was resolved. Together with many other survey activities this survey saturation in HP UK became a nuisance to individuals and led to this "survey fatigue" (Brant 1996:29). There is a tendency for people to believe that action research is qualitative research but this assumption is unjustified (Greenwood and Levin 1998). But what is qualitative research?

Qualitative research is, at a simple level, a preference for the analysis of words rather than numbers. Hammersley (1992) has identified other preferences such as, naturally occurring data, meanings rather than behaviour, hypothesis generating rather than testing and a rejection of natural science as a model. This



is only an approximation of the features of qualitative research but it is clear why criticisms are levelled at this approach, for example rejection of natural science methods (Silverman 2000). Qualitative research is one of two main traditions of research described by Robson (1993). These traditions are labelled firstly as quantitative, positivistic, natural science based, hypothetico-deductive or simply scientific and secondly, qualitative, interpretive and ethnographic. There are other labels for these two approaches but for the purpose of this research this is reduced to quantitative or qualitative. From the quantitative perspective it is suggested that a qualitative approach should only be contemplated in the early or exploratory stages of a study before a quantitative structure is implemented later for serious sampling and counting (Silverman 2000). While there appears to be a dichotomy between the two approaches this tends to focus on reliability or consistency. My personal viewpoint is there is evidence of strengths and weaknesses in both approaches and I have chosen a predominately qualitative approach while recognising that in principle there is no reason to prefer any form of data (Silverman 2000). However, an important point is contained in the following statement,

*“doing qualitative research should offer no protection from the rigorous, critical standards that should be applied to any enterprise concerned to sort fact from fancy” (Silverman 2000:12).*

A qualitative research approach may be criticised as unscientific or anecdotal. This criticism is unwarranted according to Weiss (1994) as much of the important work in the social sciences has resulted from qualitative interview studies (Weiss 1994).

In cycle one a qualitative approach was adopted because Schein (1999) advised this for researching within the domain of corporate culture. While a combined qualitative and quantitative approach was not ruled out for future research cycles, and this thesis contains some quantitative data, the research is predominately qualitative. Additionally, some of the quoted material results from journal papers are based on quantitative research approaches further confirming the case study approach of multiple sources of evidence noted earlier. While there is an apparent conflict between the two approaches there is recognition that polarisation or the qualitative, quantitative dichotomy appears to be “dying



down,” and statistics “may have a certain value as background material in qualitative research” (Alvesson and Sköldbberg 2000:4).

*“In our view it is not methods but ontology and epistemology which are the determinants of good social science. These aspects are often handled better in qualitative research – which allows for ambiguity as regards interpretive possibilities, and lets the researcher’s construction of what is explored become more visible” (Alvesson and Sköldbberg 2000:4).*

Nevertheless it is important to note that, “the strengths of qualitative data rest very centrally on the competence with which their analysis is carried out” (Miles and Huberman 1994:10). Therefore, similar to the criticisms identified for action research and case studies, qualitative data is subject to perceptions of lack of rigour which will need to be challenged. However, “our knowledge is always provisional, subject to a subsequent study which may come up with disconfirming evidence” (Silverman 1993:145). This apparently relativist statement leads now to examining a philosophical perspective of the research.

### **Philosophical Perspective**

According to many authors and researchers we are in a postmodern world (Appignanesi et al. 1995; Lyotard 1979) as distinct from a modernist world. There is confusion in the texts researched of exactly what postmodernism is (Schwandt 2001) and that we may be entering an amnesiac zone of postmodernity labelled as “hypermodernism” (Appignanesi et al. 1995:126) or “hyperreality” (Baudrillard 2000:77). According to Lyotard (1979:xxiv) postmodern is defined as “incredulity toward metanarratives” such as Marxism, is “a part of the modern” and is modernism in a “constant nascent state” (1979:79). Another view characterises postmodernism as destructive and is not about clarity of definition but invites and celebrates “(re)creation of any definition advanced” (Flood and Romm 1996:161). This apparently destructive or empty postmodern world view can be summarised by the following,

*“Our postmodern world seems very likely to become one of spiritual emptiness and cultural superficiality, in which social practices are endlessly repeated and parodied, a fragmented world of alienated individuals with no sense of self and history, tuned into a thousand different TV channels (Robinson 1999:43).*



This rather disturbing view of the future, or perhaps the present, is important for this research as it appears to be congruent with the shift from a relational psychological contract where there is a sense of self, history and attachment to an organisation to a transactional psychological contract where individuals are disposable and thus may be alienated from a central part of their life, their working environment. This leads to many different questions such as, is the changing HP just a societal reflection resulting from a conscious or unconscious sense of postmodernism among its senior leadership or is HP just following trends in other companies? This is probably impossible to answer within the boundaries of this research but the potential link between postmodernism and changes within HP is worth exploring in the interview data in later chapters.

One of the difficulties of a postmodern view of the world is that it can be described as anti-methodological or “anything goes” (Alvesson and Skoldberg 2000:184). Further, “researchers in this tradition do not usually aim or claim to capture the truth of reality but to offer an interpretation or version which is inevitably partial” (Wetherell et al. 2001 a:11). This leads to questioning where I can base my research from a philosophical perspective as I have sought to find and analyse the truth but is this only my perception of truth? How can I position my research in the myriad of philosophical perspectives that all appear to contradict each other chronologically and with philosophers that contradict themselves as their work has progressed, for example, Nietzsche and Wittgenstein?

Perhaps the best way to attack these questions is to start with me the researcher and identify my potential influence on the outcomes of this research. I have already stated my position in relation to HP in that I oppose the current management’s strategic direction, as a shareholder I have recently withheld my support for all of the board of directors in an electronic proxy vote. It is interesting that a large California pension fund, Calpers, that holds 17.85 million HP shares has also recently withheld its votes for five HP directors for reasons of conflict of interests (Pacheco 2004). My reasons for voting in this way are firstly, I have low confidence in the current HP management’s ability to execute. Secondly, I believe the position of CEO and Chairman of the board should be separated into two posts as there is no check when one person holds both positions, for example, Disney Corporation’s recent change (Pacheco 2004). Thirdly, I am dismayed at the destruction of employee morale in HP as



demonstrated in the previous evidence. Fourthly I am concerned that a truly ethical company has been changed by a leadership with dubious ethics. Finally, I fear an exodus of talented HP people, when the global economy recovers, to companies with stronger employment brands (Moynagh and Worsely 2001). My personal position is clear from the above but my awareness of this means I can seek alternative or contradictory views (Gillham 2000 b) to ensure any conscious bias is identified and accounted for and that the research is balanced. However, according to Weber (1946) all research is contaminated to some extent by the values of the researcher and implications and conclusions are largely grounded in the moral and political beliefs of the researcher (Silverman 2000). This leads back to philosophy and the question of how can I position the research from a philosophical perspective? As the postmodern approach indicates partial truths and interpretation of reality perhaps an examination of the concept of truth will help answer the question and help position the research.

### **Truth**

During the second cycle of research I arrived at the conclusion that there appeared to be no absolute truth and only passing propositions or statements that were eventually challenged, refuted or replaced with newer versions. While I viewed this as a temporary outcome it positioned my thinking as a cognitive relativist or perhaps as a Nietzschean universal perspectivalist (Schwandt 2001). I was uncomfortable with this interpretive approach as it implied there was no reality or objective truth and therefore any research is localised and perhaps meaningless. Carr (2000:307-308) has commented on the apparent current orthodoxy of no value-free facts or theory-free practices implying there is little sense to talk of objective truth unrelativised to particular value perspectives.

*“On this view, objective truth disappears without trace and all that remain are value perspectives: moreover when these perspectives are held to be---as they usually are---socially grounded, we are left only with the rampant relativism implicit in wholesale postmodern reduction of truth to local narrative” (Carr 2000:308).*

This statement is consistent with Lyotard’s view of truth (noted later) but is countered by Carr arguing for a rehabilitation of an unpostmodern, “common sense” notion of objective knowledge and truth (2000:311). Further reading



indicated an absolute truth from an existentialist or humanist perspective consisting of “one’s immediate sense of one’s self” (Sartre 1948:44). If this is taken as a starting point and is as Sartre claims, “simple, easily attained and within the reach of everybody” (Sartre 1948:44) then perhaps this research can be viewed as truthful with this understanding. However Sartre’s position has been criticised as “presupposing a degree of freedom that human beings don’t in fact have” (Warburton 1998:226). Further Baudrillard (2000:68) argues for a paradoxical way of thinking, adopting a delirious point of view and “we must no longer assume any principle of truth, of causality, or any discursive norm.” Clearly Baudrillard’s (2000) view is postmodern but is unhelpful in positioning the research. In attempting to use the concept of truth I have just stepped into another philosophical minefield of conflicting definitions, theories and controversies, for example, Schwandt (2001:259-261). Then there is the Nietzschean view of truth where its attainment can never be guaranteed or certain (Robinson 1999) and the radical Lyotard view that a true statement is simply one that is “good” to make given the relevant criteria accepted within one’s social circle of interlocutors (Schwandt, 2001:261). But how does all this speculation on the philosophical meaning of truth relate to the study so far?

In examining the HP/Compaq merger the assumption can be made that at least two truths existed in this situation. Fiorina and her supporters believed that the merger was in the best interests of HP and its stakeholders, if a suggested ulterior cynical motive of preserving her failing career is discounted. Conversely, Walter Hewlett and his supporters believed that the merger was not in the best interests of HP and its stakeholders and therefore fought the merger. But is this an example of interpretive truths or just two competing world views that differ in perceptual potential outcomes? It is impossible to answer this as any success or failure resulting from the merger would be interpreted in different ways according to the world view of the opposing groups. For example, a failure by HP to generate the quoted profitability levels may be viewed as resulting from the merger decision by the Walter Hewlett group but may be blamed on the global economy or other variables by the Fiorina group. Which view would be the truth? Neither, both or either one! Of course it can be argued that the only way to answer this is to operate a merged and unmerged HP simultaneously to compare performance which is obviously impossible. Despite all of the foregoing I am no closer to positioning the research from a philosophical perspective but much of the criticism and confusion about the nature and meaning of truth is



derived from the fact that truth assumed as a construct principally acquires its meaning in the doctrine of realism (Schwandt 2001). This means to call a statement true,

*“is to claim that it accurately accounts for and explains events that occur in the real world. Hence, criticisms of the notion of truth are often directed at an epistemology of **representation** and associated epistemic values such as accuracy” (Schwandt 2001:261).*

Representation is central to the modernist project of understanding the world and in its many forms is characterised by resemblance, replication, repetition, description and duplication (Schwandt 2001). This appears to be what I am trying to do with the research, i.e. replicate, describe and analyse the data acquired in this thesis. However, the postmodern view is that representation is reprehensible because it assumes the ability to reproduce and duplicate reality and to make the transfer with no loss of content (Schwandt 2001). Further the postmodern view on qualitative studies claim they evoke rather than represent (Schwandt 2001). To some extent I agree with this postmodern view as perhaps reality is too complex to accurately represent and duplicate. Also, because of the complexity, there may well be loss of content in transferring knowledge from various sources through to this thesis. Nevertheless, my intention is to try and present the data gained as an accurate and faithful representation of reality that should stand the test of authenticity (Silverman 1993). Accepting the earlier view of the individual researcher contaminating their data and because this is a narrative, it is unlikely a fellow researcher would present the data in an identical manner. Naturalistic inquiry “assumes the importance of faithful representation of the life-worlds of those one studies” (Schwandt, 2001:227) perhaps exploring the philosophical viewpoint of reality from this will further help in positioning the research from a philosophical perspective.

## **Reality**

After attempting to negotiate a path through the philosophical concept of truth minefield I have just stepped into the philosophical concept of reality minefield. This is amply illustrated by interpretations of reality ranging from “commonsense realism” (Warburton 1992:94), “reality is discursively constructed” (Wetherell et al. 2001 b:392) to Baudrillard’s (2000:66) view of the “Real” disappearing



because “it is the excess of reality that puts an end to reality.” To start examining this difficult concept perhaps it is advisable to start from a researcher’s perspective,

*“researchers in a variety of disciplines in the social sciences have been and are grappling with social constructivist approaches, wherein the contribution of each individual in the context to the creation of a reality is recognised” (Lincoln and Guba, 1985:81-82).*

This statement already implies multiple realities and the difficulties that researchers are facing so perhaps starting from the philosophy perspective is best. Philosophers at some fundamental level have introduced arguments asserting that reality may exist at any one of four levels which are, objective, perceived, constructed or created (Lincoln and Guba 1985). I will now examine each of these realities in turn to try and arrive at a defensible position for the research. Objective reality, (naïve realism or hypothetical realism), asserts there is a tangible reality and experience with it can result in knowing it fully (Lincoln and Guba 1985). “Things in the world just are as they appear” (Schwandt 2001:220). This ontological position takes the view of individual research as approximations that ultimately converge on reality (Lincoln and Guba 1985). Similar to objective reality, perceived reality adopts the ontological position that there is a reality but it is partial and incomplete or cannot be known fully (Lincoln and Guba 1985). Therefore, a perceptual realist believes that no individual, group of people or discipline “can know all of reality at any single point in time” (Lincoln and Guba 1985:83). In the constructed reality ontological position there is always an infinite number of constructions possible and thus multiple realities (Lincoln and Guba 1985). This differs from objective and perceptual reality as reality is constructed in the minds of individuals and it is dubious whether it exists or can ever be known (Lincoln and Guba 1985). This position appears to be postmodern as Lincoln and Guba (1985) assert that a theory of truth that conforms to this ontological position is consensus theory which is similar to Lyotard’s consensual view of truth mentioned earlier (Schwandt 2001). Created reality adopts the ontological position that there is no reality (Lincoln and Guba 1985) but this would appear to invalidate all of the research. So despite Lincoln and Guba (1985) being drawn to this ontological position, it is probably best left to the contemporary physicist (Lincoln and Guba 1985). Now these philosophical



levels of reality have been briefly examined I will relate the first three to my research to try and achieve a defensible position.

Objective and perceptive reality asserts there is a single reality that can either be known eventually through research convergence or only partially (Lincoln and Guba 1985). The earlier example of the HP/Compaq merger indicated two realities depending on the human viewpoint adopted therefore already there is a suggestion of multiple realities or *constructed* realities rather than a single reality (Lincoln and Guba 1985). However, can it be argued that the opposing groups only had access to partial information and therefore this is an example of perceptive reality? This is unlikely as both Walter Hewlett and Carly Fiorina served on the HP board and would therefore have had access to the same information. The difference here is in how they interpreted the information and viewed the outcome of a merger and so I argue they both constructed these differing realities. But is there other evidence to support this philosophical position?

The assumption that may reinforce this philosophical position is that HP employees, managers, contract managers and contractor employees will view the world differently based on their varying backgrounds and experiences within HP. They would all, therefore, construct their own realities and should react differently to specific interview questions either individually or as an identified group. This will be tested in the findings chapters later. But how does the philosophical perspective relate to a case study?

*“Positivism requires that only observable phenomena can and should be researched, so realism rather than positivism is a more appropriate epistemological guide for case study research” (Perry 1998:787).*

This statement indicates the research approach is following an advised course by examining the concept of realism but there are difficulties with socially constructed reality. For example, Sokal, an American physicist, has “invited anybody who thinks that reality is a social construction to jump out of the window in his office room at the twelfth floor” (Alvesson and Sköldberg 2000:182). The outcome from this is obvious but is this perhaps too simplistic? While the act of jumping from the window and its outcome can be described as a single reality any observers asked to write an account of what happened would probably



describe the event differently. Therefore this single reality tends to lead to questions of interpretation rather than questioning the reality of what happened. So, the replication of an account of the event may differ which tends to agree with the postmodern view of loss of content in the transfer of knowledge. However this is based on a single event, the reality of this research is based on perhaps millions of linking events that together form a reality or realities and is therefore subject to omission. Add to this a temporal dimension and the sheer complexity of this research appears almost overwhelming from a reality perspective. But does this mean this research is only a partial reality or a constructed reality?

It appears initially that both realities fit the evidence but on the assumption that individuals construct their own realities through the lens of their senses based on their frames of reference I am drawn to the constructed reality. To conclude this exploration of the philosophical perspective of my research I propose tentatively that there is no single reality from a human perspective but multiple or constructed realities are a human construct after an event has occurred and should be in evidence when the interview data is analysed. This should also help in further clarification of the concept of truth. As socially constructed reality raises the importance of ethical awareness (Alvesson and Sköldbberg 2000), ethics are discussed next.

## **Ethics**

As the manager of three of the organisations chosen for research and as a senior manager in relation to other parts of REWS, I was conscious of the potential for bias or “experimenter effects” that may result from the interviewing process (Weiss 1994:211). I was also conscious of my own position in relation to HP strategy as shown by earlier examples such as my voting strategy toward the HP board. This led to asking some searching questions about whether participation by interviewees was really voluntary and what distortions may occur if I was the interviewer. While my management style is open, generally by consensus and I actively encouraged my HP team and contractors to challenge my decisions if they thought they were wrong, I remained concerned about possible bias caused by the subordinate/superordinate relationship. Also would the interviewees answer questions with what they may think I wanted to hear (Yin 1994) rather than their true opinion or feelings about a given subject area?



*“The dimension of power in interviews is most important---neither party leaves behind any asymmetries of power in the wider society when they anxiously enter a room for an interview” (Wengraf, 2001:196).*

According to Weiss (1994) recognition of the potential for experimenter bias in qualitative interview studies is a beginning in understanding the vulnerability of the experimenter. To minimise the potential for bias in the interviewing process I confirmed with all participants in the original e-mail request and follow-up telephone conversation that participation was entirely voluntary and that their anonymity was assured. Also I stated that if any interview response could compromise their anonymity then I would not use the response or change it in such a way to ensure they could not be recognised. I further confirmed this in the interview time and date telephone call and at the start of every interview. Even with this degree of care in ensuring no participant felt coerced there is still potential for individuals to feel uncomfortable if they failed to participate or during the interview itself. The contrary argument is participants agreed to the interview because of their helpful disposition and this is how they generally operate which is indicative of the working environment. Nevertheless it should be acknowledged that no conclusion can be reached about any degree of perceived coercion or if any existed.

Potential for bias in the interviewing process by being more friendly or responsive to answers that supported my views or position was consciously avoided by reflecting questions or statements back to the interviewee using their terminology (Gillham 2000 a). Probes were used to gain further information on the subject under discussion rather than steering the interviewee to supporting or refuting a given position (Gillham 2000 a). Questions were designed to allow the interviewee to give a general descriptive account or how they felt about a given area and not to seek a specific answer. However, it is important that recognition of potential bias is acknowledged.

Bias in content analysis of interview transcripts was avoided by actively seeking statements that either supported or opposed the categories used in constructing the content analysis master transcript. Additionally, any neutral statements where the interviewee had no view either supporting or opposing a given statement or question were included to understand whether there was any



unanimity in responses. I have therefore tried to present all views gained in given areas and not just sought answers agreeing with a position or question.

In constructing my research diary I was conscious of potential ethical difficulties as effectively I would generally be quoting from individuals conversations without their knowledge. While full anonymity is achieved by not identifying individuals by name, this remains a questionable research practice identified by Robson (1993). A code of conduct for the British Psychological Society, (Ethical Principles for Conducting Research with Human Participants), section nine, states “studies based upon observation must respect the privacy and psychological well-being of the individuals studied. Unless those observed give their consent to being observed, observational research is only acceptable in situations where those observed would expect to be observed by strangers” (Robson 1993:474). By following this ethical code I have excluded some statements that were obtained in situations where one of my team or I were not viewed as a stranger. For example, if a statement is recorded from a closed functional meeting where all individuals know each other and meeting participants are unaware of my research intentions, then this must be excluded. An example of this occurred during a monthly REWS management team meeting where a colleague suggested a comment they had made would “end up in my research.” I explained that because of the ethical approach I was following I would have to firstly advise everyone that I was recording any comments and secondly to ask their permission to do so.

Conversely, statements gained in an open meeting area where customers, external suppliers and employees freely mix would be ethically gained as I would assume the role of a stranger (Robson, 1993). However the difficulty here is the assumption that I am a stranger when the individuals may know who I am in a work setting. To resolve this any statements made from the research diary are qualified by setting and context but the objective is to remain within the ethical framework identified above. The ethical discussion now moves on to gaining data from the HP Intranet and external sites.

Selective use of HP Intranet data would be biased if data used only supported a research position (Weiss 1994). My intention was to seek both conflicting and supporting evidence to ensure a balanced approach is achieved which is both credible to the reader and rigorous from the research perspective. I also had



difficulty with the audit or authenticity perspective (Schwandt 2001) because the HP Intranet data is only accessible by HP people and much of the data is deleted after a period of time. Moreover, as noted earlier, some employee sites were eliminated because of the somewhat abusive responses posted as perceived by HP management. This left me in a position of not being able to prove the existence of this data on the HP systems if asked. The only way I could counter this was to ensure I had hard copies of all material downloaded from the intranet and to ensure any text could be related directly to a filed reference. Further the comment below raised my awareness of a research dimension that I found to be both repellent and surprising but nevertheless needed to account for,

*“How do we know that the researchers really have performed a participant observation, and have not fabricated the data? The immediate reaction and answer to this question might be that surely academic researchers are honest people, who really ought not to be accused of such dishonesty. Well most of them probably are” (Alvesson and Sköldbberg 2000:262).*

While this comment relates to the method of participant observation it raised my consciousness of ensuring audit trails existed for all data acquired to counter any potential challenges of suspect authenticity (Schwandt 2001). Also, where possible I contacted any individual who had left contact details on the extranet to ask permission to quote them. For example, Carol Moses quoted earlier and this is on file either in hard copy or electronically. Therefore, as far as I am aware, I have tried to follow all advised ethical practice while gaining data for this research. Now the ethical position of the research has been outlined and justified the process of data collection is examined.

### **Data Collection**

Data collection methods were identical in all cycles of research, i.e. semi-structured interviewing, a research diary and secondary data from the HP intranet, extranet, books and journals. Primary data was gained from a total of twenty-eight interviews, eight during the first cycle and ten each in the second and third cycles. Interviewees included HP contract managers, HP employees, service provider contract managers, and senior contract employees. This was designed to understand whether any differences occurred between the levels.



Ideally more interviews would have been conducted at operator level but, as with all manager practitioner research there is limited time and resource. These methods of data collection were designed to examine the core concepts or heart of the research which were engagement and reciprocity outlined earlier. By using this case study approach of various methods capable of triangulation I planned to gain a deeper understanding of what employees and contractors really felt about the subject areas examined. All interviews were conducted using the same methods as cycle one but with more insight of the process as additional readings were undertaken prior to interviewing in subsequent cycles. For example other types of interviewing were investigated such as police interviewing techniques (Milne and Bull 1999) to gain a greater understanding of the subject and to ensure as much information as possible was elicited in the allocated time but in the most ethical and appropriate way. Depth interviewing structures were also investigated to ensure interviewing techniques were balanced and appropriate (Wengraf 2001).

All interviews commenced with a sequence of assurances and questions as follows,

- A “thank you” for agreeing to participate.
- A question to ensure the interviewee felt their participation was entirely voluntary and they did not feel coerced in any way.
- Permission to tape the interview and a projected completion date for their receipt of the transcript. (The projected date was often exceeded, see later).
- A request for the interviewee to check the completed transcript for any errors such as words they would not normally use.
- An assurance I was only taking notes to act as a memory “jogger,” and the interviewee was welcome to read these notes at any time.
- An assurance of anonymity and confidentiality. (See Ethics).

All interviews were transcribed in Microsoft Word and copies of transcripts were issued to interviewees using e-mail to test for accuracy and for feedback on content and first impressions, (Appendix C). During the first cycle all interviewees were surprised at the quantity of repetitions and the amount of thinking pauses illustrated by timed pauses, for example “7p” (7-second pause) and “ums and ers.” However, no interviewee wanted to change any part of the transcript except for one change in the third cycle where I had misunderstood one word from the tape. This was important as at the start of every interview and



in the follow up e-mail message a specific request was made to ensure words used were familiar and not the result of my mishearing or misunderstanding the taped conversation. I was surprised by the volume of words per transcript as Gillham (2000 a:62) advised five to six thousand words per one hour interview when actual results were six thousand, seven hundred to nine thousand words per hour including repetitions and irrelevant material. However Gillham (2000 a) is correct if you exclude repetitions and irrelevant material but typing all the irrelevant material seriously exceeded my time limit per transcript.

After transcribing the first cycle interviews I questioned the relevance of including all the pauses and “ums and ers” though this is regarded as an essential prerequisite to any form of analysis (Jankowicz 1991:189). I reread the transcripts to try and identify any value from this but was unable to relate anything meaningful to the research. For example, a pause before answering a question would merely be indicative of the interviewee processing the question and thinking of a possible answer or perhaps showing they were having difficulty thinking of an answer. If the pause was too long then I would ask whether the interviewee would like me to clarify the question or a part of the question. It was what the interviewee thought or felt about a given subject area that was important for the research so in the next two cycles I stopped transcribing everything I felt to be irrelevant to the research. I am not stating this approach is the right approach for all research but in this particular case I could not identify any value in transcribing, what I perceived to be, irrelevant material. However, the interviewees who participated in the first cycle and later cycles became aware of the content of their conversation from the transcripts and their responses were more concise in subsequent interviews. I certainly became more conscious of using “ums and ers” in my conversation and actively sought to reduce this!

Interviews were conducted in small meeting rooms within HP buildings depending on availability. I was fortunate that all interviewees were able to be flexible with their interview times despite operational constraints. Meeting room bookings are always difficult to obtain in HP in the UK Thames Valley area and while distractions were minimal, some meeting rooms shielded outside noise better than others. As the research progressed I was able to gradually identify the best locations for interviews.



Interviews were conducted with the interviewee and interviewer seated at a ninety degree angle to help make the interviewee more comfortable and ensure eye contact was not confrontational (Gillham 2000 a:31). All interviewees initially displayed a small level of discomfort in their body language despite a friendly rapport developed before the interview. However, as the interview progressed, interviewees became visibly more relaxed as shown by more open posture changes. Awareness of the body language of interviewees is important as an indicator of how they are feeling and as a possible cue to change interview direction (Weiss 1994:146).

Selected interview questions were based on the research completed and modified by pilot testing (Gillham 2000 a:55). Pilot testing indicated that interviewees would have difficulty with positive or negative type questions resulting in extensive probing and reflection of answers back to the interviewee. For example, "which of these changes were positive?" Questions were modified according to whether the interviewee was a contractor or HP employee. Interviews were planned to last for one hour and averaged fifty-one minutes in cycle one with the balance used for introductory conversation and closure (Gillham 2000 a). I questioned the relevance of measuring time in subsequent cycles as again I could find no value in doing this but suffice it to say that all interviews typically lasted for approximately one hour.

During the first research cycle there was an early recognition of the gender mix of interviewees as Business Logistics is predominately male. Of the ten identified interviewees only one was female, one male could not be interviewed because of illness and one agreed to two pilot interviews. The cause for this imbalance by gender is based on individuals being promoted from the warehouse activity which tends to be physical work that attracts few female applicants. However, as HP tends to practice equality with a high relative proportion of female managers and a female CEO, I did not regard this as an issue. Nevertheless, I was aware of the concept of androcentricity, where research may be biased by a male perspective (Robson 1993:64). When viewing the transcript from the female interviewee in the first cycle and two more female interviewees in subsequent cycles, I was unable to detect any major differences with other transcripts but only three female interviewees is probably unrepresentative. Therefore the reader should be aware that there may be some unconscious male perspective bias in this research.



The interviewing process produced an unexpected result as I noticed in cycle two that an interviewee response during interview had changed significantly from the previous cycle one interview transcript. Two of the interviewees in cycle two had also participated in cycle one. When asked about this change in response he answered that since he had seen the first interview transcript this had raised his consciousness about the way he conducted himself during interviews and he had therefore changed his behaviour. He further stated he appreciated the opportunity to participate and felt that his interview skills were much stronger than before. Subsequently this interviewee successfully applied for a more senior role with another company and sent me an e-mail thanking me for improving his interview skills. An extract from this e-mail is shown below,

*“My manager told me that during the two interviews I had to get the job, my interview technique was excellent, so thank you very much Dennis, the questions in those interviews were nothing compared to yours!” (e-mail dated 02/04/2003, used with permission).*

I was intrigued by the earlier response so I asked all interviewees from cycle two whether they had benefited from the interview process. Without exception they all stated they had benefited from the process as they were more conscious of their reactions at interview and would change their behaviour at subsequent interviews. From a research perspective this was a positive response as when requesting people to participate in interviews there can be a sense of trade, i.e. the researcher benefits from the capture of data and the interviewee gains a deeper understanding of how they react at interview. However there is one concern which is the possible loss of spontaneity in interview responses if any interviewees are requested to participate in further cycles. All interviews were transcribed from the tapes and coded using content analysis (Silverman 2000) and this process is analysed next.

### **Data Coding**

Transcripts verified as correct by interviewees were condensed into a content analysis master transcript by using the original questions as categories. Relevant statements were cut from the original Microsoft Word transcript and pasted to the master transcript. Content analysis originated as a quantitative technique (Gillham 2000 a) but in this research context it is not a meaningful exercise to count categories. However the qualitative approach to content



analysis, while providing material for the narrative, should be viewed as fundamentally subjective in terms of categorisation (Gillham 2000 a:72). The first cycle data coding process was questioned because of the difficulty in identifying an audit trail from the text to the original tape. While I can follow a quote used in the text from cycle one back to the original tape this would be time consuming and very inefficient. As my research must be viewed as authentic and rigorous I designed a process for subsequent cycles that would allow a rapid check of a quote in the text through to the content analysis, then to the original transcript and finally to the original tape. For example, B2-21-24 is interviewee B, cycle 2, page 21, line 24. From this I would know approximately where the statement was recorded on the tape and would be able replay this relatively quickly. I could have used the automatic count number from the tape recorder additionally but this would have been too time-consuming for little added value to the process.

The categories identified in the content analysis for coding are all shown in later chapters but it is important to ensure this exercise is viewed as rigorous despite the inherent subjectivity of categories (Gillham 2000 a). Effectively I used my own computerised process to analyse the transcripts rather than a specific qualitative analysis programme such as NUDIST (Silverman 2000). Having used mini computers, PC's and mainframe computers for some eighteen years, I have become very sceptical about the value of some specialised applications, particularly those that use a search mechanism as many existing applications have the same functionality. For example Microsoft Word is capable of handling very large files with a search and macro capability (Silverman 2000). Additionally, output from any search criterion is only as good as the information coded and loaded, i.e. GIGO, garbage in garbage out! However, using a specialised application is recommended by some authors (Wengraf 2001; Silverman 2000) but I have chosen to use Word although I could be criticised for producing a less rigorous analysis. I would dispute this because limitations are found with qualitative applications (Silverman 2000) and I am critical of the idea that just because you use a specialised application your research is therefore more rigorous. Perhaps an analogy will help explain this point more succinctly.

When Beta-testing new HP legacy computer system applications I used a method I labelled as "chimp-testing!" This involved hitting keyboard keys at random instead of following a predetermined list of instructions and my intention was to try and crash the system. My explanation for this was this is how people



enter data, they make mistakes and hit wrong keys, and it is better we find problems now before the system is live. I concluded from this experience that people tend to engineer for success and underestimate potential for failure. In relating this to using a qualitative application for analysing my data I question whether actually using such a tool may contaminate the data, i.e. does it force the user to structure data to fit the programme? Further, I dispute the assertion that using such an application can help researchers demonstrate their conclusions are based on rigorous analysis (Silverman 2000). "Just because I use a calculator to add a list of numbers doesn't mean the result will be correct!" However, used skilfully these applications may help other researchers but my personal choice was to use and defend my own method of analysis. This concludes the methodology chapter which is summarised below.

### **Summary**

In this chapter I have outlined and justified the research approach as a case study approach within an action research paradigm using predominately qualitative data. The philosophical perspective has been examined and related to the research though any conclusions reached are tentative at this stage. Methods used to capture data such as semi-structured interviewing for primary data and other methods for secondary data have been explored, analysed and justified. The ethical approach to gathering data for this research has also been explored and justified. We now move on to examining the primary data from researching the internal market in HP in the first cycle.



## Chapter 5

### First Research Cycle. The Internal Market

#### Introduction

The first cycle of research examined the internal market in HP UK REWS from the perspective of the Business Logistics Group, (BL). While restricted to one area of REWS the research was viewed as a prototype for including more areas with subsequent research cycles. The group was named at the time of the research as HP UK Support Services but REWS has been used as the current designation. The original cycle one framework of corporate culture was found to be unsuitable for progressing through to the final thesis therefore the data is analysed using the psychological contract framework outlined earlier. This may appear to be a somewhat strange approach to this part of the research but there is support for adopting this approach. For example, “few employees or managers would be able to provide useful data if asked directly about the implicit obligations governing their employment relationship. Many would fail to understand the question and most would have difficulty finding an answer. Moreover it would be hard to elicit examples of violation” (Herriot et al. 1997:154). Therefore the primary data remains as before but the analysis examines the data by using the psychological contract framework. This is an example of the reflective nature of action research and how the research framework was changed by reflection. The justification for adopting this approach has already been discussed in chapters two and four. The objectives and purpose of the first cycle of research are outlined next.

#### Objectives and Purpose of First Cycle Research

The internal market is a good example of strategic implementation within HP UK and the value of researching this is in following a complete cycle. This cycle examined the original platform activity that changed to operate in an internal market then reverted back to a platform. This complete cycle of change allowed HP employees and contractors to compare and contrast the differing business models they operated within and was therefore a rich source of data. The research commenced when the business model was in the process of reverting back to a platform activity. This chapter examines both the platform or bureaucratic and entrepreneurial business models then the internal market from the interviewee perspective and relates this to secondary data researched. The psychological contract framework and the core concepts of reciprocity and



engagement are related to this first cycle whenever supporting or conflicting evidence is identified. Therefore, the objectives and purpose of this first cycle of research is firstly to understand how employees and contractors responded to the changes in business models outlined above. Secondly, to understand the characteristics of the business models employed. Thirdly, to understand how employees were responding to changes in the wider HP and finally to recommend a robust business model based on the research. The data acquired is also planned to contribute to answering the central research question of “how does the evolving relationship between HP and its employees and contractors impact on the individual in times of strategic change,” and to meet the objectives outlined in chapter one. The research commenced with a brief examination of business models and this is presented next.

### **Business Models**

Business models or business designs are essentially the structures adopted to deliver value to customers. They are subject to life cycles, reach economic obsolescence and value migrates from outmoded models to new ones that satisfy customer priorities (Slywotsky 1996:4). While this definition is based on the overall business, at the departmental or functional level similar rules apply particularly with an entrepreneurial business model.

*“Organisations perceive and understand the world in general, their external environment, and themselves based on some perspectives or models” (Riise 2000:5).*

Business models continuously change in HP, oscillating in a centralised/decentralised continuum and functionally with specialised activities changing reporting lines constantly. During the previous six years BL has oscillated from a bureaucratic platform activity to an entrepreneurial business in an internal market and back to a platform. Another example of this constant change is BL was formerly known as SSL, Support Services Logistics, which was part of the Support Services Group. Support Services then realigned with the global Workplace Solutions Group, WPS then was renamed as the Real Estate and Workplace Services Group (REWS). While the previous corporate structure was based on a decentralised organisation (Packard 1995) current strategy is resulting in a centralised approach (HP Now 2001). This centralised approach contradicts the HP founders’ view of the world (Packard 1995:148-



151) who argued against the “perils of centralization.” However, it can be argued that the very nature of an e-environment causes centralisation by combining systems and processes (Hoofstede and Stegwee 2001:44). To understand how the research links with business models it is necessary to identify the characteristics of the two models employed in HP UK REWS during the cycle of change.

### **Bureaucratic or Platform Business Model**

This model is the most familiar structure and is commonly adopted by large organisations today (Child 1984). It is characterised by advanced degrees of specialisation between jobs and departments and relies on formal procedures, paperwork and extended managerial hierarchies where employee discretion is constrained by rules (Flood and Romm 1996; Child 1984). Bureaucracy tends to have negative connotations associated with it such as inflexibility, “red-tape” and turgid responses. However, as Balle (1999:1) argues, bureaucracy may not be as bad as it is portrayed,

*“And the most efficient way to organise “big” is still the bureaucratic model, no matter what fancy disguise we draw over it.”*

*“When operated sensibly, a bureaucracy is efficient because it benefits from economies of scale and avoids duplication of effort, whilst maintaining standards of quality.”*

Further, bureaucracy may not work because everyone expects it not to resulting in people bypassing established procedures and it therefore becomes a self-fulfilling prophecy (Balle 1999:5; Weick 1995:35). Another view of the nature of bureaucracy is “almost perfectly designed to conceal mistakes and utterly disinclined to seek them out” (Reichheld 1996:187). It is unclear from the literature whether bureaucracy is the most effective structure for operating BL but HP and contractor employee perceptions in the primary data analysis will help to clarify this.

The following analysis of business models is based on my experience within HP and is linked with the literature where relevant. The bureaucratic or platform BL structure is funded by allocated charges to internal businesses at local or regional level. Internal customers are effectively “locked in” to one service provider and are denied the ultimate business threat of moving their business



elsewhere if they are unhappy with the service provided. Problems are typically resolved by hierarchical escalation with status equivalence, for example, department managers communicating with other department managers and escalating to functional managers if the problem cannot be resolved at lower levels. Lack of problem ownership is illustrated by the way problems move about the hierarchy until a manager is forced to take ownership. Decisions tend to be based on career objectives or political expediency rather than organisational effectiveness or customer satisfaction and known in HP UK as the “teflon shoulders” approach. For example, hiring consultants to check a business area while raising an individual profile and arranging secondment of a poor performer at a higher level because of mutual interests. This approach is summarised by Reichheld (1996:188) who identified that critical skills required in a bureaucracy are political rather than diagnostic and the “good old bureaucratic skills of flattery, glibness and gamesmanship.” BL operates within the operational and ethical framework of the HP-Way and bureaucracy is apparent in the detailed procedures and clear demarcation of responsibilities and job titles, for example, ISO accreditation of procedures and hierarchical organisation charts. The alternative approach implemented in HP UK was entrepreneurial and this is analysed next.

### **Entrepreneurial Business Model**

The EBM differs from the bureaucratic model by justifying its existence in a competitive internal market. The EBM has to generate sufficient revenue from internal customers to fund its existence and any financial surplus generated is invested in resource or refunded to its customers. For example, if volumes for a specific business unit are higher than planned, revenues will increase and any surplus greater than additional resource cost would be credited to customer account location codes. Conversely, any shortfall in revenue is billed as a residual, increasing the overall charge to customers, and forcing the EBM to rationalise its cost base to remain competitive. Customers are free to compare charges with service providers in the internal and external market again forcing the EBM to be competitive as customers can move their business internally or externally to cut costs. This drives the EBM to rationalise its service structure and develop appropriate marketing and account management competencies, for example, improve relationship marketing with internal customers to secure additional business, identify new services and actively promote the organisation.



An example of the results of this approach and its consequences is shown in Appendix D.

This change to an entrepreneurial business model can be described as a market orientation (Harris & Ogbonna 2000). The organisation would also change from a predominantly hierarchical approach to a network approach that empowers individuals within the structure, for example, everyone in the organisation is a potential salesperson and customers may contact anyone connected with processing their work. Communication paths change with this model from a filtered and hierarchical approach in the bureaucratic model to a direct network. Therefore internal customers are free to talk directly with individuals instead of messages being processed, and perhaps lost, through levels of hierarchy. Managers are forced to own problems within this model as any failure can lead to loss of business and a consequent reduction in span of control or in the worst case, elimination of the function. Conversely managers are incentivised to grow their organisation both to ensure financial stability and improve their own standing within the organisation. This necessarily leads to competition and rivalry among groups who would otherwise collaborate in the bureaucratic structure.

When the entrepreneurial business model was introduced within HP infrastructure this changed the overall mindset from complacency, with a captive market, to a realisation that internal customers now had the power of choice. This led to service provider HP organisations to arrange account management training for many individuals. Further, any historic antagonisms surfaced rapidly and there was evidence of retaliatory decisions for previous poor service or high cost resulting in loss of business for the EBM. It can be argued that this “silo” approach sub-optimised HP UK because individual businesses found short term savings by outsourcing and focused on their own performance instead of the company as a whole. For example, a business that used a freight service provider would remove its business from the EBM either to gain a minor short term saving or because of historic personality conflict. The EBM now shipping lower consolidated volumes would face increased costs as their providers reduced discounts thus achieving a small gain for one business at the expense of the others. Freight rates are geared to volumes shipped, i.e. the more you ship the less you pay per unit. To understand further characteristics of the EBM the nature of an internal market will be explored next.



## **Internal Market**

The internal market created within HP UK was similar to the UK National Health Service internal market. This quasi market (Jackson 2001:10; Gray & Ghosh 2000:1) is characterised by a separation of purchasing from supply, i.e. strategic business units buy their services such as logistics or facility management from internal or external service providers. Competition exists between service providers but not amongst purchasers (Jackson 2001). The “in-house” service providers actively compete for business both with external providers and internal providers who seek to expand their business beyond the boundaries previously established in the bureaucratic structure. For example, HP UK logistics providing information technology contract labour thus competing with Human Resources and owning some upstream order processing activities and competing with Order Processing departments. Gray and Ghosh (2000) have identified other similar characteristics in their paper such as the importance of relationship marketing and preferred provider relationships. The cycle of change in HP UK and the NHS also has similar characteristics including the close timing of internal market abolition (NHS 1999, HP 2000) and the transition to a co-operative and non-competitive culture (Gray & Ghosh 2000). So, how effective is the internal or quasi market?

Quasi markets suffer from traditional market failures such as uncertainty, incomplete information and transaction costs and there appears to be little empirical evidence of whether a bureaucratic approach or internal market is more effective (Jackson 2001). While Gray and Ghosh (2000) have found evidence of improved contract augmentation and customisation because of increased competition, there is no evidence of greater effectiveness. However this will be analysed further in the primary data analysis.

The HP internal market was beginning to evolve into a new form before the model was abandoned as the UK Finance Director decided to allow a limited foray into the external market place by functions that previously only supported internal HP UK businesses. The boundary set was that no more than ten per cent of revenue could be generated from external sources. While consulting appeared to be the easiest and most logical area for revenue generation, BL was actively examining provision of a complete portfolio of logistics services to external customers. Discussions with external companies were at an advanced stage before insurance, contractual and operational difficulties prevented the



implementation of this hybrid internal market approach. For example, HP systems and administrative practices were all designed to process HP products and services and introduction of one new external product number would have global consequences for HP systems. However, given time and some investment this new hybrid approach could have worked with localised solutions but would have led to a conflict between the core competencies approach of the corporation and a conglomerate approach which is beyond the scope of this paper. Now the business models and internal market in HP UK REWS have been analysed the primary data gained from interviewing eight interviewees is examined.

### **Interview Data**

As noted in the methodology chapter, primary data from interviews was collated and coded using content analysis. The following analysis of this interview data is presented by subject heading rather than question order. Because the data was analysed by using the psychological contract framework some of the original data is excluded. However if any interviewee comments from an excluded question supports or opposes any outcome or aspect resulting from the analysis of the psychological contract framework in chapter two then this will be included. The analysis begins with examining the interviewee responses to the EBM.

### **Entrepreneurial Business Model**

Interview results indicate that employees and contractors who were directly affected were happier in the entrepreneurial environment, found their role more challenging and exciting, felt empowered, learned more and preferred this model. The initial change from the platform business model to the entrepreneurial model was met with some trepidation, for example, *“it scared me, I didn’t understand what it meant and I was supposed to be cascading that down to my team,”* (H1-8-11), and *“I was probably one of its biggest critics when it came, the actual entrepreneurial mode, because I actually thought well, this is just make work,”* (G1-10-2).

Once the entrepreneurial model was established and employees fully understood the changes the attitude changed to, *“once it’s actually all up and running it’s actually a good way of making people look after their costs and controlling them,”* (G1-10-5), and *“eventually it was working and we were getting customers coming to us,”* (B1-5-11). Therefore an initial resistance to change



was detected but once the change was understood and internalised the new business model was welcomed. This change also occurred before the advent of the Fiorina era and therefore it can be assumed the HP employee psychological contract tended to be relational rather than transactional. There also appeared to be very little difference between BL contractor and HP employee responses indicating logistics contractors may have felt their psychological contract was also relational despite the annual renewal of their company contract with HP. The general atmosphere within the business also changed as shown by the following excerpts,

*(C1-8-25), "there seemed more incentive to be able to get things done, get new business, it was all about, you know, there was a buzz."*

*(E1-8-2), "everybody was buzzing it was great to work with the company."*

*(F1-13-22), "it was a much more positive environment."*

*(G1-8-21), "almost like your own business."*

*(C1-9-12), "there always seemed to be new ideas coming along."*

*(C1-8-28), "coming up with new ways to expand the business or expand the team and I did like that."*

*(F1-15-14), "I actually feel working in that environment that you were achieving more and you had to work that little bit harder."*

*(B1-5-14), "it was cheaper to come to us and get a better job and it took a long while but it was beginning to work well and the group was actually making money out of it."*

From a business effectiveness perspective there were clear gains in customer service and overall business efficiency. Managers and employees had to go out and meet with their internal customers, negotiate pricing and service levels and produce service level agreements (SLAs). The following excerpts from interview transcripts show how the business improved,

*(H1-8-17), "I think it made us far more focused on our services, our customers, our business development."*

*(G1-10-15), "I mean, as it stands at the moment definitely the entrepreneurial model is more effective."*

*(E1-8-28), "it's more efficient, the entrepreneurial, because people had control of their own budgets."*



*(A1-8-26), "there was obviously more of a sell, sell, sell, win, win, win aspect about it."*

All the statements so far are very positive and support the entrepreneurial business model but it is important to identify if any interview statements are less than supportive or opposed to this position. After re-examining the transcripts the most negative statement is, *"It didn't really affect me that much with what I do but I could see what was going on around me, it took a long while for people to understand what was going on and change their attitudes to the way they had to work and the services that were being offered," (B1-5-7)*. Various roles within the organisation were impacted by the change to the EBM more than others but the finding here is, the more the role was impacted the greater the support for this business model. This can also be tested by the converse position when examining interviewee responses to the bureaucratic or platform model.

### **Bureaucratic or Platform Business Model**

When the BL organisation reverted back to a platform business model a strong resistance developed although employees and contractors realised they were powerless to prevent it. A summary of how interviewees perceived this is shown below,

*(G1-10-24), "I hated it."*

*(D1-10-7), "there's no control anymore."*

*(C1-10-7), "it's made me feel a bit disappointed really."*

*(B1-5-37), "Initially it seemed like a lot of work over the years had just been kicked out."*

*(H1-11-5), "it's still taken away a bit of the challenge and it still makes it a little bit more, boring's a big word."*

A general air of cynicism, also an outcome from psychological contract violation noted earlier, relating to change in HP was also clearly shown in the interview transcripts where employees felt this was just another step in the perpetual cycle of change.

*(H1-10-31), "one day it will go back and I wanted to have us positioned so that if ever it went back we hadn't alienated our customers."*

*(E1-11-2), "we don't know how long that this platform level's going to last for."*



*(D1-9-16), "spend thousands and thousands and probably hundreds of thousands of pounds on it and then change their mind and go back to what they've already destroyed and then they'd have to rebuild it all again at a great cost."*

*(D1-9-10), "I thought here we go again, in HP it's a bit like the dog chasing his tail they just tend to go round and round in circles."*

*(B1-6-13), "I think it was just here we go again, another change, just carry on and work through it."*

*(A1-10-17), "I think the worst thing probably is the chopping and changing, not which one it is but the fact that it goes from one to another and will probably change again, in fact, and again."*

The assumption mentioned earlier where HP employees are purported to accept constant change as natural and to initiate change where possible is clearly accepted in the previous excerpts. However, the effectiveness of change is clearly challenged and the cynical responses indicate these interviewees regard change as financially wasteful and often unnecessary. Uncertainty generated by the constant change approach is also visible where the statements anticipate changing back to a previous state. The contract management team were so concerned about the change from the entrepreneurial model back to the platform that they deliberately withheld this information from their general team.

*"I decided not to communicate the changes....., I felt that it would demotivate people, they would feel they'd lost a part of their role and their empowerment," (H1-10-19), and "trying not to let our people know that it went back to a platform," (E1-9-21).*

While the contractor management team accepted that contractor employees would all eventually know the business model had changed they were maintaining all original business analysis procedures both to perpetuate the view that the model had not changed and to be prepared for when the model potentially changed back. Eliminating the procedures would have slightly reduced the workload of the contractor management team but there was no cost saving available. Therefore, maintaining this approach involved a personal investment by contractor managers, which they viewed as necessary to continue the low error rates, and perceived high performance of their employees. (Current loss and damage rates are the lowest ever recorded for the business, source:



HP4, Claims Report, July 2001). Therefore contractor managers relate the improving performance to the attributes of the entrepreneurial approach and are reluctant to relinquish this. Change was also caused by the reinvention approach in HP and this is discussed next.

### **Reinvention**

Responses to reinvention by HP employees and contractors were generally negative and triangulate with the cynical response to change identified earlier. Reinvention was implemented after Fiorina's appointment therefore interviewee responses need to be viewed in the general climate of declining morale as noted in earlier chapters. There was an acceptance that change was inevitable, "*I think the company probably had to change the way it did things to survive,*" (B1-9-23), and "*I feel as though reinvention has been taken on all round the world now it's not just in HP,*" (G1-17-31). So this general acceptance of change is also perceived to be present in other companies and not just in HP but again the concern is with execution of the change, for example,

(A1-21-9), "*I don't think it's quite worked, I don't know if there were people who ever believed that it would, possibly there were quite a few Americans who did.*"

(B1-9-31), "*It's just cost a hell of a lot of money for little change. People are too confused, they don't know what's going on, they don't know what their jobs are now.*"

(D1-16-30), "*I think Hewlett Packard have tried to take on too much change all at once.*"

(G1-18-8), "*people don't know where they stand with it, it's not being communicated properly.*"

Execution of the strategy particularly with communicating its meaning is the weakness identified here. There is also further evidence that the reinvention process is severely impacting morale demonstrated by, "*I think morale in Hewlett Packard at the moment is probably the lowest I've ever seen it,*" (D1-17-20), and "*I've just got a negative feeling about the company,*" (B1-10-18). It is difficult to assess whether the reinvention caused the morale problem or whether this is a reaction over time to the gradual elimination of benefits and worsening conditions or a combination of both. Certainly reinvention is a contributor to declining morale because of the insecurity it generated and a perceived reduction of opportunity, "*I'm certainly not as enthusiastic about the*



*future, my future in HP, as I was four or five years ago,” (D1-17-10), and “people don’t know what’s going on, they don’t feel safe,” (B1-10-22).* Decline in morale was also noted in responses to other questions but this clearly triangulates with the declining morale identified from other sources in chapter three. So how does this evidence relate to the psychological contract framework?

It is clear that the relational psychological contract was changing because of interview responses, for example “they don’t feel safe” and the negative feelings noted above is an indication of violation together with declining morale. Insecurity and cynicism, both outcomes of perceived psychological contract violation from chapter two, are also in evidence. It can therefore be concluded that this first interview cycle coincided with perceived decline in the HP-Way by both contractors and HP employees in BL. As the HP-Way was defined earlier as a relational psychological contract between HP and its employees, interviewee responses that mention the HP-Way will now be presented to try and identify any perceived violation.

### **The HP-Way Interview Responses**

The HP-Way is mentioned extensively in first cycle interviews directly and indirectly by both contractors and employees, for example, “*HP has been a way of life rather than just a company,*” (A1-2-25), “*the way we used to do business and basically looking after the employees,*” (B1-1-11), and “*the HP-Way is always been about being fair, being fair with everybody, customers right down to warehousemen,*” (D1-11-20). Significantly the responses tend to be in the past tense indicating that contractors and employees of BL view the HP-Way as something that is dissipating or disappearing, “*you get the feeling that they’re taking away things from you all the time, why should you bother,*” (B1-2-21). These responses clearly indicate the HP-Way and therefore the relational psychological contract between HP and its employees is perceived to be disappearing. This also triangulates with the evidence produced earlier in chapter three where employee resistance was identified. The outcome of declining motivation from psychological contract violation is also evident from the “*why should you bother*” interviewee response. Other identified outcomes from psychological contract violation included constructive or destructive responses (Rousseau 1995) but is there any evidence of this in interviewee responses?



*"I see lots of people complaining and moaning and not being as happy as they were,"* (A1-2-25).

This interviewee response is a clear example of voice, a constructive behaviour according to Rousseau's (1995) definition. There is also evidence of exit behaviour as shown by the next responses, *"I do believe that even long term employees now are looking elsewhere to probably get out and find another job,"* (D1-4-20). However there is a constraint on exit as shown in the next response which leads to speculation on how many of the HP workforce would have exited the organisation if the redundancy package was not viewed as generous, *"but at the moment I'm definitely sitting tight for a, for a redundancy package,"* (D1-18-20). It can be argued this may be as high as 40% in HP UK from Figure 2 in chapter three if the assumption is made that the "hanging in there" (30%) category is just waiting for a redundancy package together with the 10% ready to leave. In reviewing the interview content analysis from a violation perspective there is no evidence of destructive behaviours in BL, apart from some exit behaviour, which tends to support Rousseau's (1995) contention that employees view their relationship with HP as valuable. It can be argued that the original relational psychological contract was responsible for this but as this disappears it can be speculated or even predicted that the potential for more destructive outcomes is possible if HP continues with its dismantling of the relationship attributes that employees perceived as valuable. Perhaps this is already reflected in the continuing leak of internal HP documents to external sources as identified earlier. The analysis so far shows impacts on employees and contractors but are there any specific identified impacts on contractors alone?

### **Contractors**

Before identifying any impacts on contractors it is important to clarify exactly what a contractor is from the interviewing context. Similar to the description of business models above the following description is based on my experience within HP. Contractors within HP are effectively employed by the company that is awarded the commercial contract to provide a given service, therefore they may be labelled as contractors but they remain employees of the contract company. The service provided may be conducted either within an HP building, in a contractor's building or a combination of both, The distinction needs to be made between temporary employees and contractors to understand how their individual psychological contracts may differ. Temporary employees within HP



are employees of the agency or company that provides them, for example in the UK direct temporary labour requested by HP managers would be provided by the Reed organisation. Temporary employees may also be hired by contractor companies and HP would have little control over which labour providing companies are used unless a specific problem arose or it was contractually agreed. Temporary employees tend to work from week to week and may be terminated at short notice but some are employed in the same role for years, therefore their tenure is indeterminate.

Conversely, contractors planned tenure is fixed to the contract length therefore a two year contract would produce the assumption that a contractor would be employed for that two year period. However, notice clauses in commercial contracts may be invoked by either party therefore similar to HP employees, contractors have a finite notice period, for example the HP UK logistics contract has a three month notice clause. Commercial contracts are either renewable by negotiation at fixed intervals or are one-off for the duration of a project. Therefore great uncertainty for contractors may arise around the renewal date. Contractors' tenure is therefore also indeterminate as they may regain the contract but differs from temporary employee expectations of surviving from week to week. It is also important to distinguish how HP UK REWS contractors may differ from other contractors within HP.

REWS contractors execute functions that can be regarded as permanent needs within HP UK, for example security, local logistics and building engineering and are therefore not generally subject to variations such as production changes or seasonality. Any major changes would tend to be based either on contract renewal or a significant event such as a building closure. However, in the event of a transfer of a contract from one service provider to another, individual contractors tend to transfer to the new service provider particularly if they are employed in-house. These transfers are governed by TUPE an acronym for, "Transfer of Undertakings (Protection of Employment) Regulations 1981." Now that contractors have been precisely defined for the research context their interview responses are related to earlier findings from chapter two.

Millward and Brewerton's (1999) finding from chapter two that contractors need not be emotionally disengaged from the workplace and are just as likely to link their identity with the host company appears to be correct in this case but is



tested further in subsequent cycles. Examples of contractor emotional engagement with HP in cycle one are shown by, *I think working so closely with the customer just makes people tend to feel like they actually work for HP,* (H1-6-3) and *“Most of our (contract company) employees even though we’re (contract company), perceive themselves as HP,”* (E1-4-1). This occurs despite some contractor feelings of HP host employee hostility, for example, *“the medical group were a particularly obnoxious group as were the sales teams but support teams, contracts groups, people like that seemed a lot more friendlier,”* (F1-2-25). This is confirmed to some extent by HP employee interview responses such as, *“if you’ve got contractors you don’t seem to get the same commitment as a full HP person,”* (D1-5-5) and *“I think they are either there just to do a job and to earn some money and they don’t really care which company they’re in...and others feel almost resentful that they are not part of the actual corporate HP,”* (A1-3-23).

This difference in perceptions between HP employees and contractors appears to be individually based but in this particular case there is a tendency for contractors to feel part of HP while HP employees tend to think of contractors as distinct or separate from HP. Nevertheless there is evidence of difficulties in distinguishing contractors in everyday operational life by HP employees, *“I found it very difficult to distinguish whether I’m speaking to a non dot HP dot com person or whether it’s an HP person,”* (A1-17-28), (e-mail addresses distinguish between HP employees and contract employees, i.e. a contract employee is addressed as name\_name.non-hp.com while HP employees are name\_name.hp.com). This concludes the analysis of primary data from cycle one and findings are outlined below.

## **Findings**

Perhaps the most appropriate method of presenting findings from this first cycle of research is to identify whether the objectives and purpose of the research have been achieved and if a contribution has been made to the central research question. The first objective of understanding how employees and contractors responded to the changes in business models shows they prefer working within the entrepreneurial business model as opposed to the bureaucratic or platform business model despite some initial reservations. They clearly found the workplace to be more exciting, were happier, felt empowered and more motivated in this environment and were certainly strongly engaged with HP. In



contrast they expressed their dismay at the business model changing back to a platform activity and contractor managers were so concerned they tried to prevent their reporting contractors discovering this had happened. Therefore the easy conclusion to draw from this is both HP employees and contractors prefer working within an entrepreneurial business model in an internal market in this particular case.

From the business effectiveness perspective the evidence has demonstrated improvements in areas such as loss prevention and claims within the entrepreneurial model. It can be assumed that the level of motivation in employees and contractors would have contributed to achieving these results. Other improvements in effectiveness include an improved working environment with everyone working together to achieve a common goal and an improved focus on the business overall. However, this is at the micro level and the question must be asked, is a business model that generates competition between departments or groups in the same company an effective model of business management? Evidence suggests that management of costs and efficiency in individual departments improves but is there a penalty for changing a department or group from a collaborative to a competitive entity?

The analysis of both models failed to find agreement as to which model was more effective from the literature as there were conflicting statements (Jackson 2001; Gray and Ghosh 2000; Balle 1999; Reichheld 1996). In the entrepreneurial model characteristics such as uncertainty, incomplete information and transaction costs were identified but within BL this was overcome by a focus on growing the business and inclusion of all employees and contractors. This is confirmed in the interviewee responses above. Nevertheless, there is also some evidence of sub-optimisation from the freight example produced earlier but even this example would ultimately result in improvements to the department losing the business. Therefore the conclusion as to which business model is more effective must be the entrepreneurial model for all the reasons outlined above and interviewee responses. However, implementation of this model is problematic as centralisation in companies is generating a more bureaucratic approach because of new technologies (Hooft and Stegwee 2001). Implementation will be analysed in more depth later in answer to the objective of recommending a robust business model.



The second objective of understanding the characteristics of business models employed has been achieved both from the literature perspective and from primary data. Results from this have already been built into the findings above and there is no further data to add at this stage.

The third objective of understanding how employees were responding to changes in the wider HP is shown by interviewee responses to Reinvention and the changing HP-Way. The relational psychological contract, as represented by the HP-Way, was shown to be diluting or disappearing according to interviewee responses and therefore becoming more transactional. Together with the declining morale, uncertainty and insecurity identified in responses to the Reinvention question, the workplace atmosphere was viewed to be declining and exit behaviour was apparent (Rousseau 1995). This all triangulates with data from the literature outlined in chapter three and it will be interesting to see if this theme continues with the next two research cycles.

The fourth objective was to recommend a robust business model based on the research which was partly addressed above. Findings from the research indicate that a structure that can incorporate entrepreneurial attributes is preferable from the employee and contractor perspective and leads to a happier, more effective and efficient working environment. The difficulty is in implementing this approach while a business is becoming more centralised because of technological change that merges systems and processes (Hooft and Stegwee 2001). With the understanding that this may prevent implementation of an internal market in the future the direction must change to identifying how entrepreneurial attributes can be incorporated in a bureaucratic or platform activity. Institutional or cultural forces may inhibit improvement implementation (Ellis and Kiely 2000; Oleson and Myers 1999). While positive attributes that can improve business operation are identified it will be difficult to implement if the prevailing business model or culture is not conducive to implementation or the organisation may be unsuitable for this approach (Koo 1999; Johnson 1998). My role here as a management practitioner is to find the mechanisms that will facilitate implementation of the positive attributes identified. The objective therefore is to understand how a centralised or bureaucratic model can be adapted or modified for these improvements to be tested and implemented.



As noted earlier, contract managers are continuing to operate the logistics function as an EBM by not informing their people of the change back to a platform and continuing with activities in preparation for a return to an EBM. This is probably all they can do at the moment but it must be frustrating for them to be aware of a superior operational method and being unable to implement it fully. The positive attributes identified of empowerment, open communication and improved internal customer relationships can all be encouraged and maintained within the platform activity. Further, maintaining the EBM control mechanisms, as referred to by interviewees, would help in perpetuating these entrepreneurial attributes. Therefore, the recommended robust business model is the EBM within an internal market but current technological change means a bureaucratic or platform business model that includes entrepreneurial attributes is probably the only model that can be achieved.

The final objective of making a contribution to answering the central research question of “how does the evolving relationship between HP and its employees and contractors impact on the individual in times of strategic change” has been achieved. A sad reflection of this change in HP is the contrast from all the positive, motivational interviewee responses from working within the internal market to the negative responses on Reinvention and the HP-Way. Change from a happy, motivated and engaged environment to one of insecurity, uncertainty, fear and potential exit. Therefore, the evolving relationship between HP and its employees and contractors, at this point of the research, has changed significantly. The psychological contract is also changing from what can only be described as almost purely relational to beginning to be transactional. The outcomes of psychological contract violation of insecurity, uncertainty and cynicism are shown in interviewee responses. The Rousseau (1995) definition of violation, “reneging” on the psychological contract by HP is much in evidence as summarised by the interviewee response of “taking things away from you all the time.” This also tends to indicate perceived psychological contract violation rather than breach which is a temporary condition (Pugh et al. 2003; Pate et al. 2003; Pate and Malone 2000; Morrison and Robinson 1997). This concludes the examination of the findings from the first cycle of research but for further triangulation I will add my personal reflections.



## **Personal Reflections on Cycle One**

In reflecting back on the internal market I found this to be the most exciting and challenging time of my career with HP. The empowerment and motivation generated by this business model was extraordinary. An example of this was a chance conversation, during one of my visits, with a contractor warehouseman who was responsible for processing a specialised type of inventory. His opening comment was, "I think I've got some more business for you Dennis." In this new environment he had been talking to an internal customer and discovered he could process an additional specialised inventory that the customer was then processing in Europe. This meant more work for the warehouseman but he was proud to have gained this business and this showed how powerful the internal market was in generating enthusiasm and motivation at all levels of the organisation. I could quote many other examples but this example together with the interviewee responses confirms, in my view, the superiority of this business model.

The somewhat negative attributes of the internal market identified earlier (Jackson 2001; Gray & Ghosh 2000) of uncertainty, incomplete information and transaction costs were all in evidence during this time. Uncertainty was caused by not knowing how long a business stream would last but this was, paradoxically, a strong motivator as it tended to generate a determination to find new business and ensure existing internal customers were happy with the service. Incomplete information was demonstrated in many ways, from the difficulties of gaining market intelligence on competitors to understanding the true costs of the existing operation. Transaction costs were all eventually identified down to the last cent and this exercise produced many surprises. Some businesses were not paying anything for the services provided while others were subsidising them. This led to commercial alignment of all the business practices within BL that would not have occurred in a bureaucratic environment where costs are apportioned to internal businesses in a somewhat arbitrary manner such as by headcount or number of desk cubes. Moreover, as a commercially oriented organisation I was able to prove how competitive this particular model was as shown in Appendix D. This concludes the cycle one research process which is summarised below.



## **Summary**

This first cycle has explored two differing business models and how employees and contractors responded to them. The entrepreneurial business model within an internal market is viewed as superior to the bureaucratic or platform business model because of the positive impacts on employees and contractors and greater business effectiveness. The objectives outlined have been achieved and a significant contribution to answering the central research question was presented. Difficulties in implementing the positive attributes identified in the entrepreneurial business model in a centralising business caused by new technologies have been discussed. Finally the impacts on employees and contractors within the psychological contract framework in the evolving HP were identified and presented as a foundation for subsequent research cycle data. The research was conducted within an environment of increasing outsourcing and its impact on employees and contractors forms the basis of the next cycle of research.



## **Chapter 6**

### **Outsourcing**

#### **Introduction**

This second cycle of research examined the relationship between Hewlett Packard, (HP) and contract companies that work primarily as implants within HP buildings resulting from an outsourcing strategy. While this second cycle of research sought to answer a specific cycle research question it is effectively a continuation from the first cycle of research as specified in the original research proposal but contains some significant changes in content as outlined later.

The first cycle was restricted to the UK Business Logistics organisation and examined employee and contractor responses to differing business models. This second cycle continued examination of employee and contractor responses but to an outsourcing business model and was expanded to include most other disciplines within the department. Research was restricted to areas managed by HP UK Work Place Solutions, (WPS) which was formerly UK Support Services as noted in the first cycle. During the writing of the second cycle the name of the organisation has changed yet again to its current designation of HP UK Real Estate and Workplace Services, (REWS). Contract areas researched include logistics, security, space planning, cleaning, building and plant engineering and printing, all defined by HP as non-core activities suitable for the outsourcing business model.

The aim of the second cycle of research was to improve understanding and operational effectiveness of the outsourcing business model from a management practitioner perspective and be academically relevant in meeting Bournemouth University Business School's requirements for progression towards gaining the degree of Doctorate of Business Administration. The research continued the case study approach, as defined by Yin (1994), together with an ethnographic contribution from a research diary and secondary data from the literature, the HP Intranet and other web sites. The objectives and purpose of the research are outlined next.

#### **Objectives and Purpose of the Research**

This second research cycle differs from cycle one by focusing on a specific cycle research question. The cycle research question, "are contractor and host



management attitudes changing as outsourcing matures” is examined as an extension of the first cycle of research and incorporates some new directions such as what work means to employees and contractors and thus how they engage with HP. These new directions are clarified later in the chapter. Additionally some objectives were selected to understand how contractors feel about working within the outsourcing business model, how they perceive the way they are behaved toward by HP and how HP managers perceive them. The research objectives that link with the first cycle, should help answer the second cycle research question and make a contribution to answering the central research question are,

1. Understand how contractors relate to their own company and to HP.
2. Understand how HP contract managers perceive contract employees.
3. Understand contractor and HP employee attitudes in the changing environment.
4. Recommend changes to contract management approaches as derived from the research.

All these objectives are examined within the framework of the psychological contract and related to the central research question of, “how does the evolving relationship between HP and its employees and contractors impact on the individual in times of strategic change.” These second cycle objectives were also chosen because of the continued willingness of colleagues, peers and contractors to participate in my research as demonstrated by their enthusiasm to be interviewed and discuss various issues with me. I was extremely grateful for this participation because I know the time they sacrificed was valuable in their already over-stretched schedules caused by reducing resources. But why choose outsourcing instead of any other research area?

The justification for choosing outsourcing as a research area at the time the research was conducted was because of the rich data available from an organisation that had progressively used an outsourcing business model for some years, the continued availability of employees and contractors that were affected by this and the potential contribution research outcomes could make to managerial practice in my areas of responsibility and others within HP. We now move on to understanding the outsourcing business model.



## **Outsourcing Business Models**

Outsourcing or the contracting out of various business activities has continued relentlessly in Hewlett-Packard as management attempts to find further cost savings. Outsourcing is a centuries old business practice that gained prominence in the early to mid 1990s as corporations struggled to maintain profitability in difficult trading conditions (Kakabadse and Kakabadse 2000). Today the outsourcing business model has become pervasive in many different business areas previously regarded as core competencies in organisational hierarchies such as Human Resource Management and Information Technology Support (Johnson 1997). This chapter examines the structure and content of outsourcing business models before analysing any potential impacts on employees and contractors within the psychological contract framework.

## **Outsourcing Defined**

Outsourcing tends to be viewed in two different ways, it is either the latest fashionable management activity or fad (Lonsdale and Cox 2000) or a permanent structural change in the way corporations manage their business that is reaching the end of its development (Richbell 2001:266). However, some commentators have suggested that outsourcing may continue to increase and lead to the “hollow corporation” (Richbell 2001) or as Handy (1995:41) suggests, companies are becoming no more than a “box of contracts.” But what is outsourcing exactly?

Effectively outsourcing is the contracting out of non-core activities formally managed in-house though this is changing as discussed later in the chapter. This is generally in support activities such as Facilities Management and Information Technology support but also encompasses key supply chain activities such as assembly and logistics (Lonsdale and Cox 2000:446). Renewable contracts are tendered for the supply of a given service and service providers compete for contracts when the host company decides to outsource an activity or replace the current contractor. Outsourcing is one of a plethora of fashionable management concepts that seem to appear, gain prominence, then fade into relative obscurity until recycled with a new label or new strategic justification. An example of this cycle is the popularity of Total Quality Control, TQC, that became fashionable in the 1980s, probably reached its fashionable peak in the late 1980s and early 1990s then gradually faded into obscurity. Whether this is because TQC was institutionalised or internalised within



organisations, or a new fashionable approach superseded it is debatable, for example TQC projects in HP UK stopped in 1998 when the award scheme was suspended. However, the important point is to recognise the constantly changing nature of management fashions and that outsourcing is probably just another fashionable approach (Abrahamson and Fairchild 1999). This may appear to immediately devalue the research conducted for this cycle and raise the question of, “what value is there in researching a concept that will ultimately become outdated and obscure?” Perhaps the most appropriate answer to this question is to recognise that all research is embedded in its time and its value may have a limited duration or become a starting point for subsequent research. But what is the definition of outsourcing?

There appears to be no concise definition in the literature that completely defines outsourcing, for example Johnson (1997:5) quoting Corbett, identifies a non-exhaustive list of eleven terms: “sub-contracting, contracting-out, staff augmentation, flexible staffing, employee leasing, professional services, contract programming, facilities maintenance or management, contract manufacturing and contract services.” Of course all these terms can also have other meanings (Johnson 1997). Reilly and Tamkin’s (1996:5) definition of outsourcing is,

*“where an organisation passes the provision of a service or execution of a task previously undertaken in house, to a third party to perform on its behalf.”*

It is important to clarify “in-house” at this point as this can mean services or tasks are produced or executed either in a host company building or externally. A contract company operating within a HP owned or leased building is typically referred to as an implant. Outsourcing is also developing as a global strategy within global corporations such as HP and this is generating other definitions, for example, Elmuti and Kathawala (2000:113) define global outsourcing as,

*“the strategic use of outside resources to perform activities that are traditionally handled by internal staff and resources. It is a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers.”*



To further complicate the outsourcing definition modernist management gurus have shortened the term outsourcing to “sourcing” and claim this includes everything you do (Johnson 1997:4). Using this definition every business activity is suitable for outsourcing. However for the purpose of this research the activities outlined earlier are defined as non-core functions suitable for outsourcing within HP UK.

To conclude this attempt of defining outsourcing it is clear the following conditions apply,

1. Outsourcing has many definitions and these are changing.
2. It is performed by contracted service providers.
3. Services or tasks may be executed either within host company buildings or externally.
4. Generally the term applies to activities formally conducted in-house but may also apply to activities never conducted in-house.
5. It is currently restricted to activities perceived as non-core but the definition of what is core and non-core is changing.
6. It is a management strategy with global implications.
7. Outsourcing contracts are agreed for a finite duration.

Accepting that previous definitions are non-exhaustive and that perceptions of what is core to an organisation are continuously changing I propose the following definition of outsourcing,

*A finite contractual relationship between two or more organisations for the provision of any defined non-core service specified by the host organisation and executed by the contracting organisation.*

An additional observation on the outsourcing process is it can be thought of as a continuum model with the two extremes labelled as outsourcing and partnership. The positioning on the continuum would depend on how strong the relationship was between the host company and the service provider. An example of this is shown in Appendix E. The significance of this is to indicate that host company/service provider relationships differ and my research and operational practice have concluded the partnership approach is superior. The definition of



core activities and how outsourcing is developing as a global management strategy need further exploration and these are now analysed sequentially.

### **Core and Non-core Activities**

Core activities are sometimes regarded as core competencies but defining what is a core competency for any one organisation is “fraught with many ambiguities” (Kakabadse and Kakabadse 2000:674). Core competencies are those competencies that can be grouped as a bundle of skills or technologies or the sum of learning across individual skill sets and individual organisational units (Hamel and Prahalad 1994). Core competencies must also make an important contribution to perceived customer value and customers are the ultimate judges of whether something is a core competence (Hamel and Prahalad 1994). In relating this to what is a core activity it appears at first sight that activities outlined earlier are not core activities, for example, security and logistics. Nevertheless this point is debatable as an indifferent welcome to customers by a contracted security officer or poor quality distribution can seriously damage customer relationships nurtured by currently perceived core activities such as sales and marketing. Therefore, from a customer perspective, distribution as a component of logistics and security at a building reception point can appear as a core competency if the service provider fails to meet their expectations.

### **Outsourcing as a Global Management Strategy**

Global procurement of commodities is quite common (Johnson 1997:60) but global procurement of services is only just beginning to emerge, for example, the global provision of a catering service for Chevron Oil Company by Compass Catering Services (Business.com 2002). Within HP procurement strategy is to source services globally, regionally or locally in that order. Examples of global supply of services are found in distribution within HP such as contracts with Federal Express, DHL and Danzas but it can be argued the nature of this business is already global in terms of the actual service provided, i.e. global distribution. Provision of other services is more problematic as Johnson (1997) has noted; this is difficult because of the local nature of suppliers. Globalisation of service supply also appears to be “bottom up” rather than “top down” within HP, for example, consolidation of the supply of security services within the UK to one service provider while a Pan-European solution was not available because available service providers could not manage a complete European solution as reported by HP European Procurement. It can be concluded that global



procurement of services will be delayed until service providers themselves have achieved a global presence. Any business model or corporate structure affects employees and contractors and this is examined next.

### **Outsourcing Impacts on Employees and Contractors**

As would be logically expected, research papers identified to date focus on outsourcing from a management perspective in terms of cost containment or strategically, for example, Kakabadse and Kakabadse (2000) and Juma'h and Wood (2000). There appears to have been little attention focused on the employee or contractor perspective, for example, how do employees feel about being transferred from a host company to a service provider? Does it affect their attitude to work and thus their psychological contract? What do host company employees feel about the threat of outsourcing and does it affect the overall meaning of work for employees? Questions such as these need answers because while outsourcing is becoming more pervasive or has perhaps entered a new accelerated phase (Moynagh and Worsley 2001), correct management and understanding of the employees involved is critical for its success. Kakabadse and Kakabadse (2000:695, 699) are a typical example of the management approach where they identify various negative aspects of outsourcing on employees such as “survivor syndrome, mourning and serfdom” but then focus on how management can contain or mitigate this rather than exploring the problem from the employee perspective. Perhaps this can be explained by the assumption that targeted audiences of research papers are from the ranks of academia and management. However there is recognition that there is an impact on employees and contractors and the severity of the impact is related to how the process of outsourcing is managed (Johnson 1997). But how does the outsourcing business model affect employees and contractors?

An ethnographic study by Kunda (1992) is particularly relevant for this research because the original study was based in an American hi-tech corporation with many similarities to HP. Kunda (1992) identified various behavioural impacts in the contract employee population of this corporation. These included evidence of a minimal self and the sense of inclusion or exclusion. These contract or temporary employees are variously labelled as “extra-culturalists, outsiders and marginal members.” Kunda found that the relationship between contract employees and the host company was economic and that management made no attempt to encompass or penetrate the self (1992:209) indicative of a



transactional psychological contract. A statement by an engineer summarises the feelings of host company employees toward contractors or temps,

*“Well, you can’t expect too much from them. You’ll find uncooperative behaviours and no loyalty. That is true for all contract people; it’s true for temps and it’s true for freelancers. They’re just not Techies” (Kunda 1992:209).*

Techies is a label for host company employees rather than a reference to engineers as a group. A later work by Pfeffer (1994) supports this view of contract workers by finding that 80% of contract workers would not meet Apple Computer’s hiring criteria. A quote by a HP executive also supports this view,

*“they don’t tend to be dedicated to the corporate ideal.... They’re here to make money, not to fulfil the corporate vision” (Pfeffer 1994:24).*

The evidence presented so far indicates a lack of engagement of contract employees when these studies were conducted that tends to contradict the findings in cycle one where contractors tended to feel part of HP. The findings from interview responses will help clarify whether this has changed over time in this second cycle. Before examining further impacts on employees and contractors it will be useful to clarify the concept of the minimal self.

While Kunda (1992) uses the term minimal self to denote a minimal participation in organisational life he explains this as “temporary workers are fully exempt from membership and its deeper implications” (Kunda 1992:209). This display of the self is further explained as being managerially sanctioned and enforced therefore presentation of the self is related to level of organisational membership and is minimal for contractors or temporary employees (Kunda 1992:161, 162, 209). From a philosophical and cognitive perspective Gallagher (2000:14) asserts the minimal self is a self “devoid of temporal extension and is clarified by a sense of agency and ownership for action.” Of interest is the parallel Gallagher (2000) draws with concepts of artificial intelligence or robotics and a minimal self as the management expectation of outsiders from Kunda’s (1992) work can be argued as similar to one of robotic behaviour. A further insight into the concept of a minimal self is to contrast it with the concept of a narrative or autobiographical self. A narrative self is described as the sum total of its



narratives and includes within itself all of the equivocations, contradictions, struggles and hidden messages that find expression in personal life (Gallagher 2000). Further discussion of this cognitive concept of a narrative self is beyond the scope of this thesis but it is important to position the concept of a minimal self for understanding interviewee responses in the findings analysis later.

Primary data from the interviewing process and research diary together with secondary data from the literature, HP intranet and external web sites are analysed and presented next. The ten interviews conducted have yielded some unexpected results that suggest attitudes are changing as outsourcing matures. However other dynamics external to the outsourcing process have also contributed to changes in attitudes. Analysis of results commences with results from an interpretive content analysis conducted on interview transcripts. This is followed by any relevant contributions from the research diary and secondary data. The three approaches are then synthesised or triangulated to support validity of any propositions made. Finally initial conclusions are drawn from the findings and any recommendations from a management practitioner perspective are presented.

### **Primary Interview Data**

Content analysis of interview data was structured according to primary questions asked with some sub categories. Results are presented by question order from the content analysis and include the justification from the literature for the questions. The analysis begins with interviewee perceptions of why outsourcing occurs in HP.

### **Reasons for Outsourcing**

This question was designed to elicit perceptions of why HP has adopted an outsourcing strategy and whether there is alignment of understanding in the hierarchical levels of people interviewed. This links with reasons for outsourcing outlined earlier and also tests whether there is congruity with the academic and employee understanding of reasons for outsourcing. Responses to this question are classified by three primary categories, core competencies, cost and flexibility. This indicates that all interviewees had a strong understanding of why HP is outsourcing various activities. Examples of responses in the three categories are as follows,



## **Core Competencies**

*(A2-2-17), "they didn't look upon it as their core competency."*

*(B2-3-10), "of non-core competency nature for the business."*

*(D2-2-19), "it would wish its own staff to remain specialised."*

*(E2-2-16), "it's not part of the core business that they're involved with."*

*(F2-2-16), "you can concentrate on your core competencies."*

*(J2-2-27), "a belief that Hewlett-Packard cannot be experts at everything."*

This selection of responses clearly demonstrates that interviewees believe the activities they are involved in are perceived as non-core to HP business. There were no contradictory statements here or any major differences between responses from the three levels of interviewees. The responses also clearly link with the justification for outsourcing outlined above.

## **Cost**

Conflicting views were identified here as to whether cost saving can be achieved with the outsourcing business model. Accepting that one source has proposed a 10% cost saving overall from outsourcing (Masson 2001) it is unclear whether the original in-house department was overstaffed or "bloated" before outsourcing was initiated. The following responses demonstrate the opposing views on cost saving,

*(A2-2-27), "I'm not even so sure that cost was top of the list."*

*(C2-3-8), "I wouldn't say there is a significant saving to be made."*

*(E2-3-20), "Several of the people that I've worked with on this site and other sites have said HP could do the job far better themselves within their own business and probably save money."*

*(F2-2-12), "it's more cost effective and an easier way to manage the business."*

*(H2-2-27), "it certainly saves them a bit more money."*

An e-mail from Gordon Gilstrap, HP's then Director of Global Logistics illustrates the corporate HP view on cost saving in Appendix F. However, the majority interviewee view was that cost savings could be achieved by outsourcing.



## **Flexibility**

All interviewees commented on flexibility being a key component of outsourcing and this primarily related to HRM issues such as being able to eliminate employees quickly and reducing HP headcount. Other responses included the contract companies owning the operational difficulties that previously would have been owned by HP. Examples of responses are,

*(B2-4-22), "the operational hassle factor that comes up is then left for somebody else to deal with."*

*(E2-2-12), "they relieve themselves of the management of personnel and the activity itself."*

*(F2-3-28), "more and more companies will be looking for one service provider to then outsource or manage all of the other sub contractors for them."*

*(G2-2-27), "you don't have any personnel issues."*

*(H2-2-27), "we're easier to get rid of."*

*(J2-4-7), "it's a lot easier to work through a contractor with regard to the staffing changes."*

No contradictions or opposing views were noted in the interviewee responses. There was a general acceptance by contractors that their tenure was limited but this appeared to cause no anger or resentment when answering the question. Some responses indicated there may be a cyclical nature to outsourcing that links with the earlier statement in terms of outsourcing being a fad or fashionable management approach. This was shown by,

*(A2-2-29), "it was the "in thing" at the time."*

*(A2-3-8), "I think the trend is already perhaps started to err back the other way."*

*(F2-2-9), "it seems to be a trend in the marketplace and it makes sense really to outsource to companies who are experts in that particular area."*

*(I2-2-23), "they go through this cyclical, where you outsource all the expertise back into that function."*

The last response was from a contractor perspective where previous experience recognised outsourcing activities back into host companies, or insourcing, on a cyclical basis. To summarise the responses from this question, there were no



surprises here and everything can be linked back to what has already been identified in the literature and employees and contractors demonstrated a clear understanding of the reasons for outsourcing. The next question tested whether contractor interviewees would prefer to be employed by their present contract company or HP and the HP perception of contractor preference.

### **Employer Preference**

Historically a widely held assumption among HP employees and managers was that a contractor's ultimate objective was to secure employment with HP. This assumption was also designed into the hierarchical progression model of HP UK Logistics in the late 1980s and early 1990s, for example, individuals would commence in the Logistics department as a "temp" worker employed by an agency. If perceived as suitable they would progress to the next level as a HP contractor, employed directly by HP but with limited benefits. The final level was full employment as a HP Logistics "head" with full employee contractual rights, benefits and potential for career progression. This also links with Kunda's (1992:20, 46) study where the desirability of "getting hired" is noted and with the comment from cycle one that identified some resentment from contractors not being hired by the host company. This question was also developed to understand responses to a secondary question of, "if you are asked in a social or other situation where you work and what you do, how do you respond?" This secondary question, advised by my academic supervisors, was designed to understand contractor allegiance with contract companies or otherwise.

Responses to this question contained some surprises as many of the contractors expressed a preference to remain with their present company. For some this had changed over time and coincided with the negative conditions in HP. Other responses indicated the outsourcing companies they worked for had improved over time and cared more for their employees now while they perceived that HP cared less for its employees than before. The analysis begins with examples of which company contractors would prefer to work for,

*(A2-3-24), "probably my company that I'm employed by."*

*(D2-3-29), "I've been pleased I'm on the (contract company) side."*

*(G2-4-24), "at the moment I think I'd prefer to stay as I am, there's more scope."*



*(I2-4-4), "I'd prefer to stay with (contract company) at the moment my present company."*

These responses are significant as the basic assumption in HP that contract employees want to work directly for HP is challenged. This can also be interpreted as recognition of the declining relational psychological contract between HP and its employees. Some responses also indicate that being employed directly by HP would be a disadvantage in terms of career progression and maintaining their specialist skills. This links with the new psychological contract where specialisation and employee driven training are attributes and loyalty is shown to a profession or self rather than a company, (Table 2). However, this is not unanimous and there are some contradictory views,

*(E2-6-21), "I think they would feel that their employment was more secure and the benefits of being employed directly would be far better than being employed by a contract company."*

*(F2-5-19), "but on a day-to-day basis they feel more part of the organisation they're actually working for."*

The response from HP contract managers is mixed in terms of whether they think that contractors would prefer to work directly for HP,

*(B2-5-20), "I think there's mixed views on it."*

*(B2-5-27), "some of them actually would like the opportunity to work for HP."*

*(C2-3-25), "I think that they would, the people that I have working for myself or via the contractor, not working for myself directly, would prefer to feel that they were working for HP."*

*(J2-5-25), "I think it's probably a mixture."*

There is also an indication that the higher the level of the contractor in the contract company the more they would wish to remain with their contract company, for example,

*(A2-5-11), "So being at (contract company) gives me arguably greater scope for future development."*

*(J2-5-25), "I think that probably the supervisory management level quite often they see the benefits of other openings from other contracts within their own organisation."*



This may also be linked with potential contract changes where typically the contractor management team would be eliminated but the operational contractors would transfer over to the new contract company. There is evidence that the lower the level of employee the more attractive working directly for HP appears to become,

*(J2-5-29), "probably a number of other people who may not be very career minded would think that they would get more benefits if they were a HP employee."*

This again links with the concept of the new psychological contract and employability noted in Table 2 and commented on by Martin et al. (1998) where employees are expected to own their careers.

The observation made earlier that contract companies appear to be caring for their employees more while HP is caring less is supported by the following responses,

*(A2-4-3), "(contract company) has become a better place to be and HP has become a little bit worse."*

*(A2-4-27), "Now if I was with HP I think I would be looking over my shoulder almost every day."*

*(D2-4-27), "we've actually grown while HP seems to be declining."*

*(I2-5-7), "there's probably a lot of people who'd probably prefer not to work for HP at the moment."*

*(J2-6-20), "I think I've seen the companies that we use develop though."*

There is evidence here that attitudes are changing over time but this may be both because outsourcing is maturing and because of the increased uncertainty within HP. Some interviewees related directly how their views had changed over time,

*(A2-4-12), "when the outsourcing took place the outsourcing company didn't really seem to care about us or the business and slowly over time that's changed."*

*(D2-4-31), "a couple of years ago I would have definitely have preferred to have been employed by a big strong company like Hewlett-Packard."*



While no general rule of changes in attitude by contract companies can be applied it is clear that some are perceived as caring for their employees more and their employees are responding to this. The analysis now examines responses to the secondary question of, “if you are asked in a social or other situation where you work and what you do, how do you respond?” The overall majority of responses from contractors specified they work “at” HP and not “for” HP. The two exceptional responses differed as shown below,

*(A2-5-25), “I would say that now I work for (contract company) at Hewlett-Packard.”*

*(H2-5-26), “I say I work for a company called (contract company) but I’m contracted to Hewlett-Packard.”*

The other respondents indicated they would divulge they worked for a contract company if pressed but this would be a secondary response. When asked why, typical responses indicated the status of working at HP, for example,

*(E2-13-12), “Because there is status for working for Hewlett-Packard.”*

*(I2-7-14), “it’s a blue-chip company, it does have a lot of prestige.”*

While the responses to this question are mixed it is clear the majority prefer to be associated with HP rather than their employing company and this is related to the perceived level of status of their contract company compared to HP. The next question sought to elicit contractor perceptions of working in a HP building but being employed by a contract company and HP contract manager perceptions of this.

### **Contractor Perceptions of Working in HP Buildings**

This question links with Kunda’s (1992:209-213) study where a minimal self is identified in contract or “temp” employees. The question seeks to establish whether a minimal self continues to exist in contract employees or whether this is disappearing, as outsourcing becomes more pervasive. This question analysis is categorised into the current perceived situation, whether attitudes are changing and if any barriers continue to exist, in that order.



## **Current Situation**

*(A2-6-14), "I think I've got the best of both worlds."*

*(B2-7-25), "I think there's a frustration in terms of trying to understand why there is a difference."*

*(E2-9-5), "there is quite often a reluctance for the (contract company) staff to actually do their role, carry out their role properly, because they get a degree of resentment, argument, "I'm HP and you're not so you can't tell me what to do," and this comes across quite strongly."*

*(G2-8-19), "Well I think it's going away from the HP-Way, it was built on sound principles and it was a happier environment."*

*(I2-9-11), "It depends who they are, there are certain, a layer of management who don't really respect us."*

This small selection of responses indicates the environment for contractors to present a minimal self remains in place as shown by comments such as "a degree of resentment" and "they don't respect us." This links with Kunda's (1992) identified labels of extra-culturals, outsiders and marginal members. However, some contract employees and HP managers are detecting changes in the way HP employees relate to contractors but this appears to be minimal as noted in the following responses.

## **Changing Attitudes**

*(G2-7-4), "I think the attitude has changed."*

*(J2-9-5), "the barrier isn't as high as it was before, we can actually talk over the fence."*

While there is some evidence of changing attitudes in the way that HP employees interact with contractors, most of the responses tend to be negative towards contractors. This is explained as human nature by some interviewees, for example,

*(D2-7-1), "I couldn't put that to them being HP I just put that down to human nature."*

*(D2-7-23), "I can say that one group of people definitely appeared to be more "up themselves" than others, for want of a better expression."*

*(H2-6-16), "if it's a contractor nine times out of ten they'll speak to you but if it's a HP person they'll put their head down and walk down the corridor."*



*(J2-8-20), "You still get the obnoxious individuals but I believe they're obnoxious anywhere they are, whether they're on a HP site or they're in Waitrose."*

Most of the responses indicate barriers continue to exist and contractors are viewed as outsiders, for example,

*(C2-5-10), "I'm sure that yes, they feel a lower class citizen."*

*(D2-7-16), "Yeah the way people spoke could be very condescending. Expectations of general skivvy work and for you to be pleased that you were doing it."*

*(H2-6-15), "there's a definite barrier, there's a definite divider between us."*

This leads to the next question of testing whether individuals think they would change if employed directly by HP. This question was also designed to continue testing for the minimal self with contractors. HP managers were asked what percentage of contractors would meet HP hiring criteria to understand if change had occurred from Pfeffer's (1994:22) finding where 80% of contractors would not meet Apple Corporation's hiring criteria. Results are therefore presented from the contractor and HP management positions respectively.

### **Contractor Responses**

Responses to this question varied by function and while specific functions will not be identified to preserve anonymity of interviewees the following statements clarify the functional differences,

*(A2-7-7), "I don't think I would change very much. I mean there's nothing I would do differently in my day because I work for (contract company)."*

*(E2-12-1), "I think the motivational side of it more than productivity I think if people are better motivated for the job they do, then there's a general increase in enthusiasm and productivity."*

*(F2-12-11), "I can't see how the service from the people would actually change, the relationships they've got with their customers are excellent."*

*(H2-8-11), "I don't think I would change in any way."*

*(I2-10-22), "I suppose the way you manage, yes bound to."*

The last statement is significant, as the implication is that management methods differ between host and outsourcing companies and consequently the relationship between employees and management. Additional to functional differences, responses vary between no change and a potential for increased



enthusiasm that is linked with the minimal self where enthusiasm is not a desired attribute. A HP manager clarifies this with the following statement, (J2-11-18), *“I would hope that they would be a bit more interested in HP as a business.”*

This last statement implies there is little or no interest in HP as a business by some of its contractors. The question arises of, “should HP managers expect contractors to have any interest in a host company when they have relatively low security of tenure, perform relatively low status roles with equivalent low status rewards and are treated as outsiders?” Perhaps the answer to this question is that HP managers have an expectation of contractors driven by performance standards of HP employees and the expectations of the HP-Way that may be an unrealistic expectation of contractors. Further, HP management may be expecting contractors to respond on the assumption that contractors have a relational psychological contract with their employing company and thus are engaged in a similar way.

### **HP Management Position**

The Apple study mentioned earlier is supported as a historical position with HP REWS managers stating they were instrumental in improving the overall calibre and skill-sets of contractors under their control from an earlier weak position, for example,

(C2-7-19), *“prior to the changes there was, say ten people, of that ten people I would have said I’d have three out of the ten.”*

So the original suitability of contractors in this function was 30% of the total. After direct intervention by this manager, as a result of the downsizing and cost cutting policies, the remaining team of contractors improved significantly to 75% as shown by,

(C2-7-23), *“with the downsizing that I carried out, of the four people that work for me now, I would most probably say I would hire three of the four.”*

While the starting point is similar to the original Apple study change is reflected in other answers from HP managers, for example,

(J2-10-14), *“Probably around about fifty percent would be a safe, without investigation.”*



When this manager was asked what percentage of “known” contractors would be hired the response was,  
*(J2-10-23), “Seventy-five.”*

A response from another HP manager indicates the earlier problems with outsourcing when first introduced,  
*(B2-10-24), “In effect there were people that were quite happy to just mill around all day long absolutely doing very little or nothing at times.”*

This has now improved as illustrated by the manager stating that the majority of the remaining contractors would be hired, *(B2-10-17)*.

In summarising the results of this question it is clear the original position of 80% of contractors being unsuitable in the Apple study was mirrored to some extent in HP but has been improved significantly by direct intervention by HP managers. This now leads to the next question where perceptions of change in HP were elicited.

### **Changes in HP**

The significant change outlined earlier has impacted HP employees severely but how are contractors affected? This question is designed to both triangulate with researched HP employee perceptions and test whether the uncertainty and change has also affected contractors. The question also develops to understanding whether the cyclical threat of contractual renewal is more significant to contractors than threats caused by economic or structural change and any impacts from the psychological contract perspective. Findings are therefore presented firstly by changes identified, secondly by the impacts of HP change on contractors and finally by the perceived impact of cyclical contract renewal.

All interviewees identified substantial change in HP with most responses negative apart from one statement by a contractor and some positive statements by HP contract managers that will be examined later. The quantity of examples is substantial but a small representative sample is presented below,

*(A2-8-4), “it’s just suddenly become the place where people don’t necessarily want to be.”*



*(C2-12-4), "I think that people have become quite aggressive rather than assertive."*

*(D2-11-1), "I sometimes get the impression HP is in panic mode."*

*(E2-15-6), "there are people who quite openly are resentful over where HP is and that has a demoralising effect on contract staff as well."*

*(G2-9-29), "I've listened to HP people, long term, seventeen, eighteen, twenty years here who now all they want to do is collect their redundancy."*

*(H2-11-16), "you hear the bad vibes and everything going around and everybody's clutching to what they've got and I know a lot of people that are not bothered."*

*(I2-11-25), "the environment and atmosphere I would say has probably gone downhill, I'm sorry, deteriorated."*

The above responses clearly indicate a difficult environment where employees and contractors are responding to changes identified in chapter three and the first cycle. Responses such as *(E2-15-6)* show how the negative HP employee feelings are disseminating through the contract workforce with a "demoralising effect." There is recognition of poor morale by HP UK management for example the following research diary quote taken from a HP webcast,

*(11/02/2002) Quote from Phil Lawler, UK MD, "a measure on how we can improve, my goal is that we all start to feel better, re-engage the whole organisation back into HP."*

Significantly Phil Lawler was one of the first casualties of the Compaq acquisition workforce reduction programme and is no longer employed by HP. This leads to the next part of the findings analysis that examines the impact of changes on contractors.

### **HP Change Impacts on Contractors**

This difficult environment is obviously affecting contractors but a surprising result is that HP employees openly discuss how they feel with contractors, as HP



people appear to assume that the problems within HP do not affect contractors, for example,

*(E2-16-1), "use them as a sounding board or just as an ear to bend because, Oh God! I'm fed up and you don't work for us so it won't hurt you."*

This may also be another manifestation of HP employees viewing contractors as outsiders (Kunda 1992) who are not part of the organisation and are therefore assumed to be unaffected by the difficulties HP employees are experiencing. Other change impacts identified include increased stress in the HP workplace as shown by (C2-12-4) above and,

*(J2-12-3), "People are definitely more stressed and you have to take that into account an awful lot more when you're talking to people with an understanding of their workload."*

This increased stress appears to be generated by lack of resource, for example,

*(H2-10-25), "the amount of people that we've got doing stuff has been cut and people seem to have more responsibility, bigger jobs to do and not enough time to do it."*

Lack of resource also shows in other statements such as,

*(C2-12-8), "I'm not saying we had fat before but we've become so streamlined now that it's tough."*

*(F2-13-14), "there's been a change round in personnel or a reduction in personnel."*

In summarising the impacts of HP change on contractors it is clear that they are working in a more stressful environment with lack of resource and having to cope with negative messages from HP employees. Additional to these changes in the HP environment is the stress caused by contract renewal.



## **Cyclical Contract Renewal**

Contracts with service providers are typically renewed annually which creates a difficult time for contractors. Contractors may question whether they want to continue working in such an uncertain environment but generally if a service provider is changed the existing contract employees tend to transfer over to the new contract. As noted in cycle one, their employment rights are protected by TUPE, an acronym for, "Transfer of Undertakings (Protection of Employment) Regulations 1981." Some contractors have transferred numerous times with contractual changes, for example,

*(E2-16-12), "some have been here quite a while and have gone through various TUPE transfers as different companies have taken over."*

Nevertheless the uncertainty generated during this time is uncomfortable for contractors and may lead to a higher than desirable attrition rate. Evidence to support this is shown by,

*(E2-16-9), "prior to the renewal of contract there is always a period of anxiety, uncertainty."*

Logically this leads to increased recruitment and training costs thus raising costs overall. Uncertainty generated by cyclical contract renewal also appears to be more feared by contractors than structural or market changes as shown by,

*(A2-10-7), "I'm far more concerned about a new supplier coming in rather than there not being any business for anyone to do."*

However any negative news may directly affect contractors such as the reaction to changes in HP during 2001,

*(D2-12-6), "it did filter through to (contract company) and there were a lot of people that left early last year, left (contract company), for one reason or another."*

While no direct cause and effect can be proven here it is significant that increased attrition in the contract company coincided with bad news in HP. As noted earlier, there were some positive responses to this question. The single



positive contractor response indicated conflict between HP contract management and the contractor,

*(I2-11-28), "in some ways it's been better because some of the one's who were stumbling blocks, who felt threatened by us or whatever have now gone."*

However this was an isolated example and not mentioned by any of the other interviewees. Nevertheless it should be recognised that conflict can occur between HP managers and contractor managers and that HP managers can view contractor managers as a potential threat to their interests. Positive responses from HP contract managers tended to focus on reduction of a perceived bloated workforce therefore justifying redundancies, for example,

*(B2-13-14), "we went from quite a small to what I consider to be an absolutely huge IT internal resource organisation which seemed to reach a real peak around two or three years ago and we've seen it just go away almost totally these days."*

*(C2-14-24), "I think the job cuts that were enforced were actually a good thing, companies and organisations get complacent, HPC (HP Consulting) for an example, five hundred heads per annum growth is just ridiculous."*

The assumption here is that HP management over recruited and consequently had to eliminate the additional heads. Significantly this coincided with the reduction of revenue towards the end of 2001 where Fiorina failed to control costs during the start of the downturn (Burrows 2003). Change in the psychological contract and the process of cyclical contract renewal has an impact on individual perceptions of job security and this is examined next.

### **Job Security**

This question links with the previous question and seeks to elicit further understanding of the current uncertainty in HP and how contractors feel about working with the uncertainty of contract renewal. This question also links with the new psychological contract described in chapter two to understand whether the security linked propositions identified are operationalised in the workplace. Interview responses are segregated by contractor and HP contract management.



HP contract managers produced varied responses to this question ranging from not very secure to feeling reasonably secure. There was an air of resignation when answering this question, perhaps almost a fatalist or powerless response as shown by,

*(B2-16-1), "when the time is up the time is up and that's OK by me."*

This is probably tempered by the HP severance package that appears to be viewed as fair and equitable, for example,

*(C2-15-27), "worst case, I'm asked to leave HP and I walk away with a big fat cheque. Unfortunate but it's a big fat cheque."*

Contrasting with the HP contract managers' response, the contractor response was surprising as contractors felt a degree of security that appears greater than the host company! This may reflect a shift from a transactional psychological contract to a relational contract and from a prospector strategy to a defender strategy within contract companies (Rousseau 1995), for example,

*(A2-10-15), "my own company would look upon on me as an asset they wouldn't want to lose now."*

*(D2-12-15), "I do feel secure, I've been with (Contract Company) for a long time."*

*(G2-12-16), "I feel very secure."*

*(H2-12-19), "I feel quite secure because I know that they, they probably do their utmost to find me something else within (Contract Company)."*

However, not all responses were so confident, such as,

*(F2-14-15), "For the last two years I haven't felt very secure with (Contract Company)."*

This may be explained by the uncertainty and restructuring within this particular contract company as shown by,

*(F2-14-24), "colleagues doing the same job as myself have been made redundant or found alternative employment."*

An entry from the research diary also explains the uncertainty for contractors,

*(27/02/2002), met with MM yesterday and tested the idea of contractors being constantly aware of the possible short-term nature of their contract.*



*Response was “yes, it’s always at the back of your mind, when anything changes you always think immediately about whether the contract is ending.”*

Nevertheless, the majority of contractor responses indicated a sense of security either in the current contract or a firm belief the contract company would find alternative employment on other contracts should the existing contract terminate. There is a temporal dimension to this belief that indicates changing attitudes by contract companies, for example,

*(A2-10-19), “that wouldn’t have been the case at the first, maybe five or six years of outsourcing.”*

This is indicative of a potential shift of security and loyalty from the host company to the contract company. However more research is needed to verify this. Two research diary entries are also indicative of changes in loyalty,

*(26/04/2002), I think a lot of people aren’t loyal to HP anymore, they’re loyal to people, (overheard in open coffee area, HP people not known to me).*

*(13/05/2002), Overheard in coffee area, “the company I was with outsourced my job, then realised it was a big mistake and brought it back in house. They’ve offered me my job back but I told them to shove it.” (Unknown individual).*

These comments are significant as they show that breaking the old psychological contract has consequences in terms of reduced or eliminated loyalty (Pate and Malone 2000). Further evidence supporting the new psychological contract was also apparent in some of the interviewee responses such as,

*(F2-19-1), “You don’t get the same loyalty from temps. Try and avoid using them at all costs really.”*

*(G2-12-27), “I’ve got enough self-confidence in myself to know that I would just be moved on to another contract.”*

*(I2-14-7), “security has never worried me. The simple fact is I know I could walk out of here and go and get another job.”*



These responses confirm the new psychological contract outcomes from Table 2 of employability, loyalty shifting from employers to self or profession and taking responsibility for individual careers. There is also a link with the mercenary attitudes proposed by Littler et al. (2003) that will contribute to a proposition made in the findings section later. Lack of resource and cost cutting in HP, already mentioned, has contributed to some uncertainty and this is examined next.

### **Cost Cutting**

This question analysis continues developing the uncertainty theme and testing whether working for contract companies is becoming more desirable. Responses were mixed and varied from operational to emotional in terms of how it affected relationships and the identified causes of low morale from chapter three including salary freezes and lack of resource. Examples of operational responses are as follows,

*(A2-12-12), "eventually you get to the point where you honestly, you don't know what to do to keep saving money."*

*(C2-16-20), "we're into this react mode at the moment therefore you've got no time, people need it and they need it now."*

*(D2-15-20), "We have had to get rid of people which is obviously down to HP, however we understand if there's no work for these people to be doing then that's the way business works."*

*(F2-19-9), "it's the worst I've ever known it in HP."*

*(H2-15-1), "I suppose the job's got less interesting because you can't put your full potential into anything."*

These responses indicate the overall atmosphere within HP and the frustrations that are arising from the current cost cutting strategy. An example from the research diary summarises a view that I hope is isolated,

*(31/10/2001), "so, have you got rid of all your dead wood then?" HP manager of another department, (used with permission), he also stated that he is not known for his diplomacy!*

Other responses further reinforce the findings of stress in responses to the previous question, for example,



*(A2-17-22), "You don't want to go home at the end of the night stressed and taking your problems home."*

*(C2-16-20), "So the chances are then you've not been able to get your day job done which means by the time you go home you're frustrated, annoyed and whatever else and you do then end up taking it out on someone that's normally pretty close to you."*

*(H2-15-17), "when you have to beg, steal or borrow to do something you just don't make people happy."*

This indicates the stress arising in the working environment is affecting not just HP employees and contractors but also their partners and families. Another interesting response is the impact on contractors from disaffected HP employees as already noted in *(E2-16-1)* above and,

*(A2-12-24), "we've experienced comments which are actually thrown at us by HP people when we walk round, you know, sometimes saying oh, I'm losing my job you're going to lose yours next week."*

This exacerbates the uncertainty within the contractor community and could accelerate attrition. Overall, responses to this question did not produce any evidence of the desirability of working for contract companies but was successful in confirming the current negative environment in HP. This negative environment would logically impact on individual psychological contracts and careers and this is examined next.

### **Career Progression**

This question links with the concept of employability from Table 2 and the new psychological contract where the onus is now on individuals to develop their own skill-sets instead of expecting their employer to produce a development plan and necessary training (Kakabadse and Kakabadse 2000). The majority of responses indicated that interviewees felt their careers were progressing in both HP and contractor companies but for a variety of reasons ranging from promotion caused by other people being downsized or leaving to gaining visibility. Responses where interviewees felt their careers were not progressing are shown below,

*(E2-21-17), "I actually don't see a career path with (Contract Company)."*

*(G2-15-10), "at the moment I would class my particular job as "dead mans shoes."*



These interviewees also mentioned they would have to move to another contract to progress in their careers which they were not prepared to do. Therefore it can be argued that these interviewees have chosen not to progress and that opportunities are available. However another interesting dimension is where the host company insists on retaining a particular individual which may impact their career progression, for example,

*(I2-18-22), "we can hold a good person back within an organisation because the customer demands that he has that person."*

Therefore to retain a contract individual employees of contract companies may be constrained from expected career progression. However, it must be assumed that certain compensatory devices are used to prevent a key employee from developing their career with another company if they feel constrained by their current contract company. As noted earlier, in the new psychological contract, employees will own their development and this is clear from the following,

*(F2-21-9), "my career progression is very much in my own hands now. I know what I need to progress to the next level."*

There was no evidence of other changes in the outsourcing business model from the interviewee responses. Continuing on from career progression is training and development and this is examined next.

### **Training and Development**

This question tests the level of investment by contract companies and HP and links with the previous question to understand any temporal changes in contract companies and further tests the new psychological contract outcome of individuals becoming responsible for their own training and development Contractor responses show specific need training in terms of courses directly related to individual job functions, for example,

*(I2-20-1), "bits of training, employment law, depends on the priority, what's going on."*

Other responses indicated contractors were carrying out training of their people in standard role related procedures. HP responses indicated that the level of training was increasing and decisions to attend were a matter of individual choice rather than compulsion. Responses also indicated a recent increase in training frequency, for example,



*(B2-21-24), "in the last three months or so there seems to be a real drive now in terms of training and development."*

*(J2-19-14), "Probably a lot more than the last, last couple of years."*

It has been cynically suggested that increased training is a mechanism to deflect attention from frozen salaries and eliminated benefits but this would need further research. Nevertheless this increase in training contradicts the new psychological contract outlined in Table 2 as HP is directing people to courses that the new contract suggests should be managed by the individual. There were no other significant responses to this question. The final area examined in cycle two is the meaning of work for individuals and how this may be changing.

### **Meaning of Work for Individuals**

The final question was designed to elicit responses that indicate whether attitudes to work are changing over time with HP or contract employees and whether outsourcing has changed any views. This question also links with the concepts of the new psychological contract and employability. Generally all responses identified funding of lifestyles or families as a primary meaning of work, for example,

*(F2-24-27), "my work is a way of funding my lifestyle and the lifestyle of my family."*

*(H2-20-6), "Because I need money to live that's why I go to work, because I'm damn sure if I won the lottery on Saturday then I wouldn't be here."*

However a surprising element of the responses indicated a high priority given to current lifestyles and a distinct reluctance to change this. Interviewees indicated they would not be prepared to move geographically to gain higher salaries or other career improvements unless this was viewed as a key component of their present role, for example,

*(A2-20-1), "there's no point in having a senior position with more money because money isn't the be all and end all for me."*

*(C2-25-1), "if I lost my job tomorrow I wouldn't feel that I needed to go out and work for another blue-chip company earning mega-bucks."*

*(D2-20-17), "Well I've always been of the opinion that you work to live you don't live to work."*

*(F2-27-5), "now security and quality is more important to me than the financial package at the end of the month."*



These responses may have far-reaching consequences for organisations as the new psychological contract implies higher salaries for less security but what interviewees are saying is that higher salaries are not as important as security and quality of life. It can be argued from the evidence in chapter three that this represented the original HP and therefore the original HP relational psychological contract. Therefore the roots of conflict are evident as diametrically opposed expectations of employees and employers. Significantly there was no major difference in quality of life responses in terms of age, gender, role or employing company. This quality of life issue appears to be very important for the interviewees and is therefore an area worthy of further research. In my role as a manager with HP I had extensive responsibilities for the outsourcing process and I will add my personal reflections next.

### **Personal Reflections**

My reflections on outsourcing in HP are based on my experience of managing three substantial contracts. I found that some responsibility areas were suitable for this business model while others were not. For example, a financial modelling exercise conducted within HP UK BL showed that it would be more cost effective to insource this activity while the security contract could not be cost effectively insourced. However, one reason for not insourcing the security contract is the expectation that security guards work excessive contracted hours that would not be allowed within HP. This is a paradox within HP as its previous employment brand proclaimed how well HP employees were treated while some of its contractors worked excessive hours. My view on outsourcing therefore is, this is a suitable business model but should only be employed where there is real benefit for HP and that contractors should not be exploited by the expectation of conditions that would not be tolerated within HP.

A statement that I have used many times in presentations both professionally and academically is outlined below as I believe it eloquently summarises the difficulties of outsourcing,

*“In fact, employers face a number of paradoxes: they outsource in order to save money, yet are worried about being exploited on cost. They outsource to improve service, but they fear it may deteriorate. They choose to contract out to avoid the hassle of management, yet they still need to control” (Reilly and Tamkin 1996:82).*



These paradoxes are implicit in all the outsourcing contracts I have been involved with but as outsourcing matures the contractual nature tends to become more of a partnership with the service provider. An example of this is shown in the appendices from an article produced for the *Institute of Logistics Journal*. We now move on to examining the findings from this second cycle of research.

## **Findings**

Similar to cycle one, the findings from this second cycle are presented as answers to the research questions and objectives. The first objective of understanding how contractors relate to their own company and HP was achieved and there were clear changes in attitudes identified although there were some mixed responses. Contract companies appear to be valuing their contractors more than previously and this is giving contractors more confidence in their management. Conversely they see HP valuing its employees less and this appears to have strengthened their attachment to their own companies together with a declining view of the desirability of being hired by HP directly. Another finding is that the lower the level or the less career minded a contractor is, the more they would like to be hired by the host company in this particular case.

The second objective of understanding how HP contract managers perceive contractor employees shows some changes in attitudes though this appears to be minimal. This has been partially caused by the direct intervention of HP managers when they have been able to change the mix of contractors reporting to them. Therefore the responses tend to agree with the original results of the Apple study where a high proportion of contractors would not meet the hiring criteria of the host company but have been improved by HP contract manager intervention. However there is some evidence of indirect improvement as shown by responses such as “we can talk over the fence” and “attitudes are changing.” Nevertheless, contractors continue to be subjected to the conditions for presenting a minimal self and barriers still exist between contractors and HP employees but there is some evidence that HP employee attitudes are changing in the way they react to contractors.

Contrasting with this is the contractor responses where they tend to feel, or wish to be, part of HP but feel this is not recognised by the reactions they receive



from some HP employees. This continues the theme from the first cycle where Millward and Brewerton's (1999) finding from chapter two that contractors need not be emotionally disengaged from the workplace and are just as likely to link their identity with the host company is further confirmed. Therefore contractors want to feel they are part of the host company but the reaction they get from some HP employees tends to undermine this although contractors tend to attribute this to human nature.

The third objective of understanding employee and contractor attitudes has already been addressed to some extent in the findings above. However there is confirmation of the uncertainty and insecurity identified in cycle one together with a more stressful working environment with reducing resources. It is clear from interviewee responses that HP as an employer is becoming less attractive compared to contract companies becoming more attractive. This is probably exacerbated by HP employees venting their frustrations with HP to contractors as shown by some of the interviewee responses such as the "demoralising effect" noted in response (E2-15-6). There is also the link identified by one contractor that bad news in HP coincided with a higher attrition rate in that particular contract, (D2-12-6). Although this cannot be generalised as it was an isolated response and more research would be needed to verify a causal link. Before addressing the final objective of recommending changes to contract management it is important to understand if the second cycle research question has been answered.

Is there sufficient evidence from the findings analysis to answer the cycle two research question of, "are contractor and host management attitudes changing as outsourcing matures?" The evidence does suggest some attitudes are changing but it is apparent that other variables are influencing the findings. Outsourcing is clearly maturing as interviewees' talk of temporal changes in their contracts but are attitudes changing? There is evidence that suggests some HP employees are beginning to react differently to contractors but this is not general and most of the evidence suggests there is little change. HP management attitudes are changing as they are driving the improvements that raise their confidence in the contract teams as shown by their proposed rehire answers. Senior contractor attitudes are changing in terms of wishing to remain employed by their contract companies instead of the host company. However it must be recognised that other dynamics are influencing these findings such as the



current operational difficulties in HP, the Compaq acquisition and the general downturn in the marketplace. The difficulty here is that corporate dynamics are always in flux and evolving which again leads to the conclusion that all research is embedded in its time. However, employee and contractor attitudes are clearly changing in how they view HP as shown by many of the negative interviewee responses.

Conflicting expectations where employees and contractors are seeking security and stability in their working lives compared with corporate expectations of reduced security, noted in the new psychological contract, may have unexpected consequences for HP. If incentives to remain loyal to a corporation are eliminated then corporations effectively have no hold on employees and retention becomes an issue as noted earlier. I would go further than this and identify what may be a new phenomenon in the employer and employee effort bargaining relationship. This new phenomenon is labelled the “mercenary employee” and is characterised by individuals with no loyalty to any organisation but only to their profession or self, a creed of maximising returns in any situation and exploiting any position of power for their own advantage. An example of this approach would occur with individuals working on critical projects where they hold tacit knowledge and project failure would be ensured if they moved on. At this point the mercenary employee would threaten resignation unless the company agreed to new potentially exploitative terms such as substantial uplifts in salaries or other compensatory devices. But what evidence is there for speculating on the future existence of the mercenary employee?

Firstly, the new psychological contract implies employees are disposable commodities which may effectively impact individuals esteem as they perceive the corporation does not value them. Secondly, the outsourcing business model with finite contracts perpetuates insecurity and tends to eliminate or certainly reduce loyalty and commitment. Finally, the less tolerant, cynical and more market aware workforce with the get out, get safe or get even mentality (Byrne 2001) suggests employees will focus on their own interests exclusively. As quoted earlier *“They’re here to make money, not to fulfil the corporate vision”* (Pfeffer 1994:24). However, from the evidence in the interviews, this is not what employees and contractors want as they are seeking security and stability in their employment. While this speculation on the phenomenon of the mercenary employee may initially appear to be beyond the scope of this research the



outsourcing business design is probably making a strong contribution in creating the conditions necessary for this type of behaviour to become commonplace. This may also generate further evidence of changing attitudes as outsourcing matures with further research. Despite this all interviewees felt their careers were progressing or had chosen not to progress. However, there is recognition that host companies insistence on retaining certain contractors may limit their progression. A final point is the training and development received by employees and contractors. This was limited to role related activities according to contractor responses but HP appears to be increasing training and development with its own employees thus contravening the new psychological contract in Table 2. If the cynical reason for this of distracting HP employees from the worsening HP environment is discounted then this appears to be an attempt by HP management to re-engage employees through the training process which links with the observation made by Phil Lawler before his demise. This could also be recognition by HP management of the dangers of creating more mercenary employees as will be noted in the next chapter.

The final objective from this second cycle was to recommend changes to contract management as derived from the research. Responses from question one indicate that outsourcing is accepted as a legitimate business model by interviewees though there is evidence that some view it as a fashionable approach or a “fad.” However the findings from the literature tend to confirm the outsourcing business model as permanent and becoming more pervasive (Moynagh and Worsley 2001). This is also confirmed by the continued outsourcing of more functions within HP UK REWS during this research process. The difficulty in recommending changes to contract management approaches is in disentangling the negative conditions in HP from interviewee responses so the focus is on the outsourcing process. Further, it would be impossible to proscribe negative communications from HP employees being passed to contractors in the day-to-day workplace that tends to demotivate or demoralise. Accepting these limitations I propose the following improvements to the outsourcing process.

Firstly it is clear that the temporary nature of contracts tends to be distracting for contractors and this may impact on their performance despite the TUPE regulations governing their employment. It is difficult to make any recommendations on this point as HP constantly seeks more competitive



tenders from service providers on a periodic basis and Fiorina's comment of wringing the last dollar from contract manufacturers, (I have made the assumption based on my experience of the cost cutting in HP that this has been interpreted to encompass all service providers). However, I would recommend that a partnership approach with service providers is preferable to the cold contractual approach, shown in Appendix E, as I believe this is the most cost effective and motivational method of outsourcing.

Secondly, HP contract managers should only contract with service provider companies that have genuine concern and policies for the welfare and development of their employees. This is essential to promote a consistent employment brand as recommended by Moynagh and Worsley (2001). While the ethical reputation of HP has been damaged by Fiorina's approach (Burrows 2003) a view that HP exploits its contractors and expects them to behave or act in ways that would contravene its own standards is potentially damaging to its overall consumer brand.

Thirdly, outsourcing business designs may lead to the development of the mercenary employee and potentially higher costs and attrition rates. While HP contract managers cannot stop this process, awareness of the identified business risks involved with outsourcing should improve the management of these risks. Actions such as ensuring process knowledge is retained procedurally and creating inclusive, motivational working environments may help in reducing the risks.

Fourthly, the research has shown that contractors are impacted by any negative news disseminated to HP employees and HP management should be aware of these secondary impacts when designing the communication approach.

The final recommendation arising from this second research cycle is based on employees seeking greater security and stability just as corporations are seeking to eliminate or reduce it. Managers need to be aware of this dichotomy as it may cause recruitment difficulties in the future. The question is how can employers such as HP address this dichotomy when its employment policies appear diametrically opposed to the interests and needs of its employees and contractors? It would be easy to recommend returning to the original values of the HP-Way and insourcing many of the activities currently outsourced but the



current competitive environment and the new lower margin financial structure of HP (Appendix B) would probably preclude this. One option would be to break up HP and spin-off the lower margin businesses acquired in the merger to allow a return to the original values. However, this would be unacceptable to Fiorina as she appears to be focused on revenue growth at any cost, (see financial results in Appendix B). From the evidence in the thesis it is clear the original HP-Way was motivational and engaging to employees and contractors but the assumption that appears to have been made by HP management is that it costs more to manage the business with this relational psychological contract. Nevertheless, the declining HP employment brand, evidence of continuing hostility towards current HP management and the current demotivational environment may force a return to the values of the HP-Way. My final recommendation is therefore that HP should reinstate the original HP-Way values or a relevant modernised version acceptable to employees before it becomes inevitable. This now leads on to understanding whether a contribution has been made to answering the central research question.

The psychological contract framework was used extensively in the analysis with many references to the new or changing contract. All of the attributes in the “new social contract” in Table 2 are apparent in the interviewee responses. Also some evidence of destructive behaviour such as exit was found but there was no evidence of more extreme destructive behaviours such as passive negligence or active destruction (Rousseau 1995). Constructive behaviours such as voice, loyalty and communication of grievances were in evidence but outlets for this behaviour are being reduced, for example the one-way communication paths with senior management commented on earlier. Many of the responses to some questions are mixed indicating differing perceptions and interpretations of events. Therefore in answering the central research question in this second cycle of how does the evolving relationship between HP and its employees and contractors impact on the individual in times of strategic change it is clear that the changes in HP management policy together with the increase in outsourcing is impacting individuals in different ways. This is not surprising as in the earlier analysis of the psychological contract it was found that individuals responded to perceived violation in different ways and some did not perceive any violation. The additional dimension of individuals revising their expectations when circumstances change (Sparrow 2000) does not appear to be evident in this cycle. However it is difficult to discount this entirely as some responses



indicate change in potential future roles if interviewees become redundant. This completes cycle two which is summarised below.

### **Summary**

This second cycle of research has explored the outsourcing business model within HP UK REWS and how employees and contractors respond to this model. The theme of how individuals respond to strategic implementation has been continued from cycle one. Specified objectives have been achieved together with answering the research cycle question and making a contribution to the central research question. Recommendations for improving the outsourcing contract process have been presented and the case for returning HP to the original values of the HP-Way has been made. Probably the most important observation is the continuing threat to the relational psychological contract between HP and its employees and the potential for creating mercenary employees who are disengaged from the organisation. This also impacts on the central concept of reciprocity as the question must be raised of whether employees and contractors will reciprocate the negative responses emanating from HP management. Changes in HP that impact on individuals were commented on extensively by interviewees and the most significant change, the acquisition of Compaq and how individuals responded to this is researched next in the third cycle.



## **Chapter 7**

### **Compaq Acquisition**

#### **Introduction**

This third and final cycle of research focused on HP UK employee and contractor responses to the HP acquisition of Compaq Computer Corporation. The research leads on from the first two cycles by continuing to examine employee and contractor responses to strategic implementations in HP within the framework of the psychological contract. The purpose of this third cycle of research is to understand the operational and personal responses of employees and contractors in an acquisition process. The actual acquisition event was examined in chapter three but any additional data or results gained are further analysed in this chapter. This chapter begins with a brief analysis of the nature of mergers and acquisitions, identifies specific problematic outcomes and themes then relates this to the primary data sourced from third cycle interviews and the research diary. Findings that result from the primary data are then analysed followed by recommendations for improving the M & A process. The objectives of this third cycle of research and the justification for it are outlined next.

#### **Objectives and Justification**

While there are numerous references and studies of how employees react in acquisition situations there is very little about contractors' reactions and dynamics. Some studies contain implied references to contractors such as Balmer and Dinnie (1999) who refer collectively to other involved parties as stakeholders or partner companies but there is very little content. With the increasing use of outsourcing, as shown in chapter six, many companies have a high proportion of contractors conducting several business activities formerly viewed as central or core to organisations and formerly conducted by direct employees (Johnson 1997). The objectives of this third cycle of research are therefore to understand how HP UK REWS employees and contractors have responded to the acquisition process, to identify any shortcomings from the employee and contractor perspective and to recommend changes for future acquisitions based on the research findings. There is no direct cycle research question but the research is designed to continue making a contribution to answering the central research question of how the evolving relationship between HP and its employees and contractors impacts on the individual in times of strategic change and meet the objectives outlined in chapter one.



The justification for choosing the acquisition process as a research area is because the magnitude of the acquisition is unique and unprecedented in HP (Burrows 2003) and it continues the theme from the previous two cycles of how employees and contractors respond to strategic implementation. The research clearly links with chapter three where the early stages of the acquisition were analysed and impacts on individuals were noted. The research is also justified by the richness of data available from employees and contractors responding to the acquisition experience and its consequences.

It should continue to be recognised that this research is based on a relatively small group of employees and contractors and while a significant amount of data is gathered from the wider HP, findings may not be representative of HP generally.

### **Organisation**

The HP organisation was described in some detail earlier and while some changes such as increasing layoffs are continuing, essentially these details are unchanged. However, changes caused by the merger have resulted in a top-down restructuring of the combined companies where roles were identified by hierarchical levels, i.e. top level roles were identified first at level one then these managers structured their teams at level two and so on to level six. Both HP and Compaq employees were either appointed to these new roles or were interviewed for them if there were more candidates than positions. Unsuccessful candidates were then given the option of applying for any position unfilled or accepting a severance package. This elimination of duplication has contributed to a projected 3.9 billion dollar cost saving by 2004 that Fiorina used as one justification for the merger (Burrows 2003).

The group researched, Real Estate and Workplace Services (REWS), is also essentially unchanged in terms of function but has undergone major changes of structure caused by the merger. The new manager of the UK & Ireland REWS function was appointed from Compaq and the group was restructured following the method outlined above. Now the changes in HP have been identified following the merger a brief analysis of the acquisition process is presented.



## **Mergers and Acquisitions, the Impact on HP**

Acquisitions are typically referred to in the literature as Mergers and Acquisitions or M & As (Auster and Sirower 2002; Gupta and Roos 2001; Appelbaum et al. 2000 a, b; Johnson and Scholes 1999). This generic term encompasses a complex range of strategic management alternatives that are continuously evaluated in corporations particularly when corporate regeneration is an objective or a business is “hopelessly mature” (Hamel and Prahalad 1994:78). HP has completed many M & As since its first acquisition in 1958 (Packard 1995:142) but the Compaq acquisition is unprecedented in terms of scale and value in the computer industry (Burrows 2003). This chapter examines the strategic motivation, structure and content of M & As then further examines the Compaq acquisition and identifies potential impacts on employees and contractors.

### **Terminology**

Merger and acquisition terminology appears interchangeable in the literature so it is important to clearly define the terms used before analysing the mechanics of M & As. Acquisition occurs when a large organization purchases (acquires) a smaller firm, or vice versa. A merger occurs when two organizations of about equal size unite to form one enterprise (David 1993:70). However these definitions are not mutually exclusive as acquisitions are typically *merged* or integrated into the acquiring organisations, for example, the AstraZeneca merger (Hellgren et al. 2002) and Kvaerner’s acquisition of the British Trafalgar House Company in 1996 (Johnson and Scholes 1999:338). Any distinction between the terms of acquisition and merger appear to be at the start of the process where one company acquires another or two companies *voluntarily* agree to unite or merge. The distinction between the terms then appears to dissipate after that point in the timeline and acquisition and merger become interchangeable (Johnson and Scholes 1999). It is worth noting that hostile acquisitions, i.e. where companies to be acquired do not agree to the acquisition are referred to as takeovers or hostile takeovers (David 1993:70; Thompson 1993:524). Further, friendly negotiations between companies of similar size are more likely to produce positive outcomes in the merger process than hostile mergers between entities of greater size differential (Appelbaum et al. 2000 b:679). Now the terminology of M & As is defined the strategic motivation for them is examined.



## Strategic Motivation for Mergers and Acquisitions

*“Executives involved in M & A decisions would argue that their motives are purely rational and in the best long-term interests of their company and shareholders” (Auster and Sirower 2002:218).*

While M & A decisions may have admirable motives, research evidence suggests that acquiring companies tend to lose shareholder value rather than enhance it (Barrett 2002; Jetten et al. 2002; Balmer and Dinnie 1999). So what are these motives that persuade executives to make decisions that tend to reduce shareholder value? There are many justifications, for example, in the pharmaceutical industry; cutting costs by eliminating overlapping operations, extending the scope of the companies' sales forces and increasing opportunities for funding research and development (Llewellyn 2000). Other justifications outlined by Tentenbaum (1999:24) include "buyers optimistically eye the major savings they believe can be slashed from newly combined companies, and they anticipate some form of value creation or renewal or strategic and operational advantages neither company could achieve on its own." In-depth analysis of these merger motives is beyond the scope of this research as the primary focus is impacts on employees and contractors. However they are useful illustrations of the strategic thinking behind M & As. The specific HP M & A of Compaq will be examined in depth later in this chapter from the interviewee perspective and some of the above justifications may form part of that analysis.

A further interesting observation of the nature of M & As is they tend to occur in waves (Auster and Sirower 2002; Johnson and Scholes 1999), which is indicative of major change such as industry consolidation which would logically feed into corporate strategic decisions, for example, Auster and Sirower (2002:217) state, "merger waves are important to understand because they reconfigure industries, fundamentally reshape corporate strategies, transform organizational cultures and affect the livelihoods of employees." Before beginning the analysis of the Hewlett-Packard M & A of Compaq primary data it is important to note that consolidation in the computer industry is a continuing process with Hewlett-Packard's acquisition of Apollo Computer in 1989 (Packard 1995) and Compaq's acquisitions of Tandem and DEC (Burrows 2003:180) as examples. HP's recent record of completing successful mergers is questionable as illustrated by failure with VeriFone and Bluestone (Burrows 2003). This



supports the general view from the literature that most mergers tend to lose value for the acquiring company (Auster and Sirower 2002; Bijlsma-Frankema 2001; Tentenbaum 1999). The analysis now continues with an examination of the consequences on employees and contractors resulting from M & As.

### **M & A Consequences**

In researching the consequences on employees and contractors resulting from M & As there are some common themes identified in the literature. These themes are emotive issues, communication, cultural blending and financial & legal issues. Cultural blending refers to the integration of separate corporate cultures that typically form a new hybrid culture either by design, domination of one culture over the other or separation, for example, Bijlsma-Frankema (2001) and Schein (1999:8-11). Emotive issues or a human resources perspective (Vaara and Tienari 2002), encompass issues such as stress and change management, issues that have a measurable impact on employees, for example, Nikandrou et al. (2001), Terry et al. (2001), Terry and O'Brien (2001), Appelbaum et al. (2000 a), Panchal and Cartwright (2001). Indeed from the emotive perspective the M & A process is "akin to the re-negotiation of the psychological contract" (Hubbard and Purcell 2001:18). Communication is a critical component of the M & A process and while significant resource is directed at investor communications inadequate resource tends to be invested in communicating with other stakeholder groups (Balmer and Dinnie 1999). Financial and legal issues are important in the merger process but are deemed to be outside of the scope of this research as there is a minimal impact on employees and contractors in their everyday working lives. The other three themes will be examined individually as they directly impact employees and contractors in their everyday roles and this begins with cultural blending or integration.

### **Cultural Blending**

*"In time, we came to recognize that culture is the barrier to change. The stronger the culture, the harder it is to change. Culture causes organizational inertia; it's the brake that resists change because this is precisely what culture should do" (Deal and Kennedy 2000:159).*



HP recognised that many issues would be important when merging with Compaq and a “clean room team” (Allen 2003) was established to research and recommend on issues critical for the integration of Compaq. A cultural due diligence study was conducted to identify potential cultural integration problems. Significantly there is no mention of contractors in this study so the assumption must be made that they may not have been considered. Cultural differences and similarities between HP and Compaq are noted in Table 4 below.

<b>HP</b>	<b>Compaq</b>
<b>Differences</b>	
Respect for process.	Aversion to process, seen as bureaucracy.
Long decision cycle times, a very top-down thoughtful process.	Decisions made quickly.
Leadership focused on relationships, how things get done.	Leadership achievement oriented, what things get done.
Strategy is long term oriented.	Short-term orientation to the market.
Conflict avoidance and over-compromise are normal.	Conflict addressed directly and openly, aggressive.
Titles not referenced, egalitarian.	Titles are referenced and abundant, hierarchical.
<b>Similarities</b>	
Strong customer focus	
Strong brand.	
Good products.	
Value placed on teamwork.	
Openness to new ideas.	

**Table 4, HP Strategic Change Office, Cultural Due Diligence Study Findings (Allen 2002).**

The cultural differences identified in Table 4 show clear differences in how employees from both companies approach their work, for example, the aggressive approach of Compaq would clearly conflict with the compromise approach of HP and would be viewed as unacceptable behaviour within HP. This was confirmed by Schein (1999:10) when he was working with a group of HP computer division managers in Palo Alto, “the HP-Way required people to be



nice to each other and reach consensus in group meetings, if you resisted too vigorously, they said, the boss would pull you aside later and tell you that you were not a team player.”

Cultural differences in M & A processes are recognised as being most likely and may lead to conflict if not managed properly, for example, Bijlsma-Frankema (2001). It was also recognised that while HP’s culture was strong and definable, Compaq’s was a hodgepodge of cultures caused by integration of the Tandem and DEC acquisitions (Allen 2003). It was further recognised that both the Tandem and DEC cultures were still distinctly alive to some degree within Compaq (Allen 2003). Evidence of sub-cultures within Compaq further complicates the cultural mix, for example, a Compaq Houston culture is stated as being different to any other where Compaq operates resulting in a range of cultures with not much uniformity (Allen 2003). While Allen states that HP’s culture is strong and definable there is an awareness of the various subcultures found such as differences between strategic business units, functions and geographic regions. Having established that cultural integration between HP and Compaq is viewed as important and that sub-cultures exist and are appropriate (Allen 2003), the analysis now examines how the integration is planned to ensue and what difficulties may be encountered.

### **Cultural Integration**

The mechanism to produce cultural integration, labelled “Fast Start” (HP7) is a series of sessions where all HP and Compaq employees attend with their managers to understand the new cultural direction ratified by the Executive Council. The Executive Council is the senior management team within HP comprising strategic business unit managers and other senior functional leaders. The new cultural direction includes the values and objectives refined in the Clean Room and approved by Fiorina and the Executive Council. These values are noted in Table 5 below,



1.	We are <b>passionate</b> about <b>customers</b>
2.	We have <b>trust</b> and <b>respect</b> for <b>individuals</b>
3.	We perform at a high level of <b>achievement</b> and <b>contribution</b>
4.	We achieve our <b>results</b> through <b>teamwork</b>
5.	We act with <b>speed</b> and <b>agility</b>
6.	We deliver <b>meaningful innovation</b>
7.	We conduct our business with <b>uncompromising integrity</b>

**Table 5. HP Values, Source: the “Fast Start” training presentation, HP7.**

Therefore senior management’s expectation is that individual managers throughout the hierarchy own the cultural integration activity and this is clearly shown in the instructions issued by Allen (2003) that appeared on the HP employee web site and noted in Table 6 below. Contractors would be expected to conform to these same values although there is no evidence of a written code of practice or any instructions to confirm this. However, as shown in earlier research cycles contractors perceive themselves as part of HP and their behaviour tends to follow HP cultural norms because the HP culture tends to subsume their own company culture. From the literature perspective it is already noted that there is minimal information on how contractors are affected by M & A processes and this may be explained by the strong focus on host company employees during a period of significant change. Perhaps the view is that as contractors are “disposable” in terms of tenure then investment in informing them is not viewed as important. For example in Table 6 below there is no specific mention of contractors.



1. Recognize that we are all responsible for cultural integration and that managers play a pivotal role in being successful.
2. Talk about the company's values openly with your team and invite discussion.
3. Take the time to create with your team, a 'code of conduct' or operating principles that will guide the behaviour of your team as they work together and across boundaries. Be sure these agreements are explicitly tied to HP values.
4. Connect the goals and actions of your team to the HP values and objectives.
5. Invite feedback from your team regarding cultural integration. Work the issues that emerge.
6. Meet stereotypes, language and behaviour that can separate us head on. Reinforce that we are one company.
7. Ask for help and support if you feel your organization is stuck or heading in the wrong direction.

**Table 6, Cultural Integration, Interview with Anne Murray Allen, Culture Integration Team Leader, Strategic change Office, (Allen 2003).**

Again no mention of contractors here but the values would be communicated to contractors during day-to-day interactions with HP contract managers and HP employees. This set of instructions is typical of the new HP where instructions are issued electronically to managers at very simple levels, i.e. targeted at the lowest skill level! It is also a reflection of centralisation within organisations caused by the e-environment as found in other research such as (Hooft and Stegwee 2001) and as found in cycle one. So far, this analysis of cultural integration has been descriptive in terms of specifying how HP planned to achieve integration but are there any identified impediments specified by HP or in the literature?

There is awareness within HP that integration will be difficult as shown by the following statements, "we are counting on people to engage, and if they don't, I think it will be very hard to be successful," and "If we all withdraw and say, Gosh, I hate this place! I can't wait till the economy turns around, and then I'm leaving! then this is not going to work" (Allen 2003). This is also indicative of awareness of low morale in HP as identified earlier in this research and reported by Burrows (2003:174), for example, when describing Fiorina's performance, "rather than light a fire under employees, her pay policies demoralized them." Other HP identified impediments to successful cultural integration include the following,



Blind spots between the two companies in areas such as accountability, cross-organisation teaming and leadership credibility.

The merger has disrupted the networks of collaboration through which people got their work done.

Some people are referring to pre-merger Compaq teams as “Red Teams” and pre-merger HP teams as “Blue Teams.” This sets us back by reinforcing the idea of having two separate companies, rather than a unified company (Allen 2002).

Clearly HP has identified some risks involved in cultural integration and this links with other research findings such as Schein (1999). A notable precedent of cultural integration in HP is noted by Schein (1999:9), who states, “when HP bought Apollo, it *coercively trained* Apollo employees to adopt the HP-Way.” However there appears to be little research on the dynamics of compatibility between two merging cultures and how to measure this (Veiga et al. 2000:542). A notable exception is the cultural integration paper by Bijlsma-Frankema (2001) who discusses success factors of cultural integration and cultural change processes in M & As. The identified factors from the research are, firstly legitimisation of the changes and communicating positive outcomes that are expected of the new structure. Secondly, clarification of goals and changes in what is expected of organisational members. Thirdly, monitoring the process and guidance of employees in case of noncompliant behaviour. Fourthly, establishing conditions of psychological safety and finally, securing that feedback on success and failure outcomes is given and worked upon (Bijlsma-Frankema 2001). Further her findings suggest that the mode of successive factors is one way, i.e., each factor acts as a necessary condition for the next one. This also suggests a hierarchical approach in terms of the first factor is the most important and the fifth the least. The analysis now continues with the next theme of emotive issues.

### **Emotive Issues**

Emotive issues are those issues that directly impact employees and the way they feel about the company they work for. While culture is the broad defining framework of the organisation that gives employees corporate values they can identify with and behavioural norms, emotive issues are constrained within the cultural framework. They include direct employee impacts such as stress caused by fear and uncertainty resulting from change management initiated by their



leadership. This does not exclude cultural change generating similar impacts, for example, if one culture dominates another this leads to similar emotive issues such as inferiority and anger (Schein 1999:173). However, it is clear from the literature that M & As are stressful for employees, for example, Buono (2003), Appelbaum et al. (2000 a) and a study by Davy et al (1989) shown in Table 7 below.

		Percentage of respondents indicating
	<b>Survey 1.</b>	
1.	Layoffs	82
2.	Change in Pay & Benefits	58
3.	Reorganization	58
4.	Change in Working Conditions	45
5.	Other Personnel Changes, (e.g. transfers, early retirement)	43
	<b>Survey 2.</b>	
1.	Layoffs	67
2.	Changes in Organization's Finances	64
3.	Changes in Workers' Attitudes	58
4.	Change in Pay & Benefits	54
5.	Reorganization	43

**Table 7. Expected Effects of Sale. Source: Davy et al. (1989).**

The threat of layoffs or redundancies and other significant negative changes resulting from M & As and as shown in Table 7, are confirmed by Buono when he states, "they cause organizational members to feel stressed, angry, disoriented, frustrated, confused and even frightened" (Buono 2003:91-92). This climate of uncertainty, insecurity and fear has a destabilising effect on organisations and employees and this will be tested later with data collected from the interviewing process. The outcomes of this climate may also lead to survivor syndrome as described in chapter two which in turn is related to violation of the psychological contract. The next identified theme is communication and this is analysed below.



## Communication

*“What some companies still do not realize, however, is that without effective employee communication, change is impossible and change management fails” (Barrett 2002:219).*

An appropriate level of communication is therefore critical in M & A situations as any gaps lead to rumour generation and other informal communication as employees seek to reduce stress levels caused by uncertainty, for example Napier et al. (1989) and Appelbaum et al. (2000 a:678). Communication must also be meaningful to achieve two primary objectives. Firstly it informs and educates employees at all levels in the company’s strategy and secondly it motivates and positions employees to support the strategy and the performance goals (Barrett 2002:220).

Barrett (2002:220) also specifies five primary goals for effective employee communication resulting from the two objectives above:

1. ensure clear and consistent messages to educate employees in the company vision, strategic goals and what the change means to them;
2. motivate employee support for the company’s new direction;
3. encourage higher performance and discretionary effort;
4. limit misunderstandings and rumours that may damage productivity; and
5. align employees behind the company’s strategic and overall performance improvement goals.

These primary goals from the communication perspective are very similar to the cultural integration factors from Bijlsma-Frankema’s (2001) paper noted earlier.

However, the extreme difficulty of producing the most appropriate communication is described explicitly by Weick (1995:99) when he states, “People who try to reduce confusion with lean formal media may compound their problems when they overlook promising integrations. And people who try to reduce ignorance with media that are too rich may raise issues that prevent them from making sense.” As contractors tended to be excluded from the HP M & A communication process it is difficult to identify how Weick’s (1995) balanced communication approach suggested in his statement can be assessed.



However, contractor interview responses may indicate how communications can be structured in future acquisitions. Now the thematic consequences from M & As have been analysed this is now compared with the primary data sourced from interviews.

Similar to cycle two, the primary interview data is presented in question order from the content analysis with any sub-categories presented where appropriate.

### **Changes Following the M & A Announcement**

This question was designed to identify outcomes from the HP M & A process that link with previous findings such as insecurity, uncertainty, demotivation and the identified themes from the M & A analysis. Employees and contractors commented on insecurity caused by the M & A but not exclusively as some responses indicated insecurity was a continuing condition and not just related to the M & A announcement. An example of this continuation perception is, *“the employees were no longer considered their most important asset and I don’t think the announcement really made much difference to that it just carried on going the way it was,”* (J3-6-4). So the insecurity to some interviewees was just a continuation of all the other changes made prior to the M & A. However all interviewees commented on how employees and contractors felt about the consequences of the M & A, *“I think people don’t feel they have a visible goal,”* (A3-6-20), *“I think everybody’s running scared,”* (B3-2-10), *“I think there’s a lot of worried people out there,”* (C3-4-12), *“to keep those people worrying and stressing and still expect them to perform, I don’t think that’s reminiscent of old HP,”* (D3-6-19), *“an overall feeling of nervousness,”* (E3-2-15), *“I think there was a lot of worry, a lot of concern,”* (F3-3-8), *“A lot of unhappy people,”* (G3-3-10), *“I think we’re seen very much more as a commodity now,”* (H3-5-12), *“I think at the present moment there’s so much insecurity that runs through the organisation,”* (I3-4-5), *“it’s lost all respect for employees, they are a commodity,”* (J3-6-23).

Insecurity is also an outcome of a perceived violation of the psychological contract therefore the M & A of Compaq may also be perceived as a violation by the interviewees particularly as there is evidence that many employees did not support it as noted in chapter three. The comments that employees are now regarded as commodities is interesting as this links with Byrne’s (2001) earlier observation that the new psychological contract encourages employers to view employees as commodities. Logically this would have an impact on employee



morale, motivation and engagement but is there evidence from interviewee responses to support this?

Interviewees link the M & A announcement and what followed with declining morale and motivation, *“my impression is that it’s a demotivating factor,”* (A3-3-23), and *“from that day onwards it seemed to, just slid and slid from the point of view of motivating employees,”* (D3-2-20). Some responses blamed this directly on the CEO, for example, *“it’s been on its way ever, ever since Carly came in, she’s ground it out of HP,”* (G3-5-26) and *“morale was on a downer anyway because of the way the company had been going since the new CEO arrived,”* (J3-3-19). This triangulates with the evidence produced in chapter three but is there any other evidence of emotive issues such as stress and confusion in interviewee responses?

Clearly there was confusion as employees and contractors tried to operate with changing conditions, for example, *“there is this continued questioning of, where are we going? Are we ever going to get there? And are things going to get better? They’re looking for some positiveness to come out and if it did I feel it would change their view of the situation but if it doesn’t then I think it will just spiral downwards even more,”* (A3-5-1) and *“it makes operational issues difficult as well because people are churning so quickly and you have to try and keep up with the movements and who’s left and who’s changing group and who’s reporting to who,”* (B3-3-17). All interviewees commented on this uncertainty and the difficulties caused, *“a feeling of uncertainty as to whether they’ll still have their jobs whether they’ll still be in the same building just an unsure unsettled time really to sum it up,”* (E3-2-25), and *“There’s so much upheaval, people are worried about keeping their jobs at the moment,”* (F3-7-22). All of the interview comments so far are contained in Table 7 above or some are implied by the comments, for example, while Davy et al. (1989) found that layoffs were the highest percentage scores in the surveys interviewees do not specify layoffs but this is implicit when they comment on job insecurity. There are many other comments that directly prove the insecurity and uncertainty felt by employees and contractors but there is sufficient data here to confirm this without adding more responses. To ensure the analysis is rigorous and unbiased I will now present any comments that show the M & A in a more positive way.



After reviewing the content analysis there is one interviewee comment from question one that could be defined as showing a positive outcome from the M & A, *“I think a clearer global picture is in place for the decision making process and with the increased usage of phone conferencing rather than wait for face-to-face visits or for everybody to agree on e-mails an awful lot of decisions are now made over a conference phone,”* (H3-3-21). This appears to indicate a trend away from the original values of HP that were noted earlier in chapter three, *“extremely entrepreneurial people were often frustrated by the constant need to consider other opinions”* (Burrows 2003:55-56) but is also indicative of using new technologies and an outcome from the cultural blending from Table 4 in the Compaq column. Changing values shown by interviewee comments concerning the HP-Way in previous cycles continue in this third cycle.

Interviewee responses concerning the HP-Way all continue the sense of loss from previous cycles, for example, *“I think the HP-Way had long since changed anyway. I think this is more of a final, well it’s a final nail in the coffin,”* (B3-3-24), *“At the moment it seems like you’ve got a ship without a Captain on her,”* (C3-5-9), *“I don’t know what evidence we have today that reflects that the HP-Way is still in existence,”* (F3-8-1), *I think the concept of the HP-Way has now gone, whilst people may purport it still exists the reality is that it is no longer the HP-Way that you and I know,”* (I3-4-12) and *“it should never ever go completely but it will get more and more diluted,”* (J3-5-21). This selection of responses is representative of all interviewee responses concerning the HP-Way but there is variation between whether the HP-Way actually exists or whether it is becoming diluted or changed.

Surprisingly, no interviewee mentioned the new HP-Way or the “Rules of the Garage” quoted in chapter three which indicates this was not internalised by employees or contractors. This is despite the saturation advertising of this new HP-Way in HP UK that included HP employee web sites, notice boards, “post-it’s” and the issue of the booklet entitled “the journey” also described in chapter three. Naturally this leads to the question of why would employees and contractors not internalise what the leadership of HP viewed as the new corporate creed for the future success of HP? Perhaps it was viewed as a gimmick and considered unworthy of further attention. However this is speculation but there is some triangulation with earlier comments sourced from the literature. It can also be assumed that as the HP-Way represented the



relational psychological contract between employees and HP and this was perceived to be broken or disappearing, then employees would not internalise the new HP-Way if they felt their new psychological contract was becoming transactional. The question focus now moves to understanding whether any changes occurred in contract companies after the M & A announcement.

### **Changes in Contract Companies**

This question was modified according to whether the interviewee was a contractor or an HP employee but the objective was to identify emotive issues specifically within contract companies. As Compaq and HP had differing contract companies there was a move to consolidate that would result in some contract companies losing their contracts. This led to uncertainty within the contractor community as shown by, *“they might not stand in such good favour and could probably stand a good chance of losing the contract even if they weren’t in default,”* (A3-7-5) and *“a lot of nervousness because obviously we don’t know where we’re gonna be in six months, whether we’re still gonna be working for HP or whether we’re gonna be out on our ear,”* (C3-5-19). However there is evidence that contractors believed this was just a continuation of the day-to-day threat of contract loss they generally live under, *“you never know when it’s going to change and it’s going to change when you least expect it, when you’ve got you’re most comfiest, you’ve got everything running as smooth as you like, something’s going to happen, something’s going to change,”* (D3-9-9) and *“they say you’ve got a three year contract, five year whatever, effectively you’ve still only got thirty days,”* (G3-9-21). As the contractors were living under this additional consolidation threat is there any evidence of changing approaches to improve their position?

It is clear that contract companies realised the threat and began to look at what opportunities may arise from the merger as the successful contract company would effectively gain more business. Evidence of this is shown by, *“we are that little bit more focused at the moment,”* (C3-7-24), *“they’re very keen to open up opportunities for themselves,”* (H3-6-26) and *“they view it as an opportunity but it’s in the back of their minds that because the company has changed it is also there as a threat,”* (I3-7-6). Also while there was some fear and insecurity in the contractor community the lower levels showed some surprising indifference. This is probably because of the TUPE legislation as shown in the next response, *“the new company went in and had a meeting with them all and what the*

contractors seemed more interested in was what their new uniform was going to be,” (H3-8-13). However there is clear evidence of insecurity despite TUPE, “everybody has been worried for a very long time and probably needlessly. I can’t stress to the people enough that if anybody is going to go it’s going to be management, but the people on the shop floor have been affected by this,” (D3-6-29) and “I know that within the TUPE legislation the people working within the contracted services would transfer if that came about, a loss of contract, one contractor, they would transfer to the new contractor. However, it’s still a very unsettling time,” (H3-7-9). The final part of the analysis of this contractor question examines whether contractors tried to change or improve their working practices to appear more favourable when HP consolidated them.

The evidence suggests this was discouraged by HP contract managers as shown by, “I’ve been keen to impress on them not to alter things,” (H3-7-3). This is confirmed from the contractor perspective by, “it would be the wrong time to be taking different actions, it would imply that you’ve not done what you should have, you’ve not achieved what you should have, it would indicate you were in panic mode,” (B3-7-15). Therefore it was business as usual but contractors were actively working on trying to identify the opportunities presented rather than improving their image. All of the changes identified so far had personal impacts on employees and contractors and this is examined next.

### **Personal Impacts**

This question sought to elicit more personal responses from employees and contractors about how uncertainty, insecurity and other emotive issues were affecting them as identified in the literature. Many interviewees indicated they were taking stress home with them affecting their partners and families which continue this observation from cycle two. Also many interviewees were planning or preparing for redundancy in case their role disappeared. The analysis begins with confirmation of how insecure interviewees felt, “Well initially, again I had concerns as to job security,” (A3-11-3), “I could be down like a lot of my staff and think well, you know, we could be out in six months time,” (C3-9-1) and “I guess if I’m truthful I’m planning more for the worst,” (D3-11-27). Interviewees responded differently in how they were preparing for potential redundancy, for example, “I have got a, another job,” (C3-11-15), I’ve put financial plans on hold,” (D3-10-29), I’ve looked around, trying to see what’s out in the market, I’ve planned for it as much as I can but there’s little more you can do than plan



*unless you actually leave and I'm not going to be jumping ship just yet," (E3-6-27) and "in a way if I had have been able to hold my hand up and say I wanted to go, I probably would have done that. As we didn't have that choice then I didn't, it didn't matter to me either way but I wanted to know as soon as possible," (J3-10-12).* The last comment is interesting as it triangulates with earlier views sourced from the literature and from the relational psychological contract perspective shows that the relationship between HP and this employee is no longer viewed as valuable (Rousseau 1995) further indicating the change to a transactional contract. As previously mentioned, interviewees were taking stress home with them and this is analysed next.

The interviewee comments that uncertainty and insecurity was not just affecting them but also their partners and families is shown by, *"I think my wife especially had concerns as to where we were about our decisions about property and security," (A3-13-26), "it does affect you in your home life and the stress factors and emotionally I find myself on emotional highs and lows depending on what sort of day you've had and where you think it's heading," (B3-7-24), I'm sure it affects my wife and my kids because obviously if I'm not happy I take the problems home," (C3-12-26) and "this is the first time in my working life, my career, that I've taken let's say so many problems home with me," (E3-9-26).* This selection of extracts shows the far-reaching effects of uncertainty and the resultant stress that individuals coped with during this time of change. This leads on to the question of how are the interviewees reacting to this stress and are their attitudes changing as a consequence?

The concept of survivor syndrome was analysed earlier and the alternative outcomes of a new psychological contract with potential mercenary attitudes or a feeling that survivors may be the "chosen ones" was identified. The evidence from interviewee responses does suggest attitudes were changing as shown by (J3-10-12) above and from the following excerpts. *"I have questioned myself occasionally if this was to be over would I necessarily want to work for a big firm again," (D3-10-21), I suppose my view is I don't trust anybody," (F3-17-5) and "what people are saying to me is it doesn't matter what you've done in the past, that seems to get wiped out," (E3-10-20).* These extracts suggest increased cynicism, declining trust and perhaps a more mercenary attitude but there is no evidence of any interviewee feeling they are a "chosen one," indeed the insecurity appears to be viewed as permanent as shown by *"yes I do have a*

*foreseeable future for HP certainly in the short term, certainly not in the long term because no one's irreplaceable,* (F3-18-8) and *"I'm not too sure if I'm still going to be around in a year, if I'm still going to be around in nine months,"* (E3-6-16). These responses continue to indicate the change from a relational to a transactional psychological contract and this is tested further in responses to how the M & A has affected interviewees' teams later. The next set of responses analysed that this question generated is the perceived interminable delay in HP announcing how the M & A was going to affect individuals.

This delay prolonged the uncertainty and a selection of responses to this is shown next, *"one thing that HP hasn't been very good at is just letting people know who is doing what and who has picked up roles for other people,"* (A3-13-9), *"I believe it was too prolonged,"* (H3-13-18), *"it went on for months and months and months this degree of uncertainty,"* (I3-8-2) and *"the delay was more concerning than the actual news itself either way,"* (J3-10-18). Effectively this delay put many interviewee lives on hold, as shown by previous responses, as they could not make any decisions concerning their futures until they knew whether their employment would continue. A reaction to this identified earlier suggests an appropriate level of communication is critical in the M & A process as any gaps lead to rumour generation (Napier et al. 1989; Appelbaum et al. 2000 b). One response supports this view as shown by, *"when you don't know what's going on there's a tendency to start your own rumour just to see if you get either a positive or a negative response, just to move you a step forward,"* (G3-10-17). Other mentions of rumours occur in responses to other questions such as, *"there's a lot of speculation, rumours,"* (E3-11-10) and *"information even in rumour form has managed to leak to give people sufficient warning to consider the possibilities,"* (D3-17-2). However, the mention of rumours is minimal comparatively therefore while these responses triangulate with earlier findings more research would be required to make this generalisable. We now move on to analyse how the M & A announcement affected teams of contractors and employees.

### **Team Impacts**

This question was designed to elicit further information from the emotive perspective and to find any triangulation with personal responses. All interviewees had responsibilities for teams of people either contractors or employees or a combination of both. They were therefore able to directly



observe the impacts of the M & A announcement and its consequences on their teams. There was some variation in the responses that ranged from no major changes to people leaving because of the M & A. The outcomes of uncertainty and insecurity were evident but this was tempered by acceptance that many of their contractor team members would be subject to TUPE and this was reducing the concern. The analysis begins with responses that confirm this position.

*“many of them are actually reluctant to leave because they’ve worked out one of two things, either they’re gonna be TUPE’d across so there’s no need to run because they’re going to do the same job but if they are going to lose their job many of them could have a fairly good redundancy payment,” (B3-11-16).* This response confirms the earlier observation of people’s lives being put on hold until they know whether they will have a job or not. A different view indicates another perspective on TUPE, *“they know with TUPE and their experiences with it that it doesn’t make a bit of difference who the employer is as long as you’re bound by the terms and conditions you’re happy with,” (D3-13-22).* This response indicates this team had experienced TUPE before and were perceived as becoming indifferent to changes in their reporting contract company and perhaps showing a more mercenary attitude. However this does not mean they were immune from the uncertainty and insecurity as shown in the following responses.

*“they don’t know who’s going to be managing them and who’s going to be managing the people that’s going to be managing them,” (D3-14-6), “they are taking any bit of information they can get and, sort of pouncing on it,” (E3-11-29) and “when I’ve been speaking to people on the phone there’s still the big doubt over what’s going to happen in the end,” (J3-12-13).* So despite contractors at operator level understanding their jobs were relatively safe there is evidence they still reacted to the uncertainty and insecurity. This is confirmed by the following responses, *“there’s this perception now that the best jobs have gone to Compaq. All the people we seem to be losing are in HP are the people that we trusted, so they’re gradually feeling more and more uneasy,” (D3-13-6) and “comments like there’s no point in putting the two thousand and three calendar up because we’re only going to need four or five months of it,” (E3-12-7).* There is also evidence that some of this uncertainty was being generated by HP employees when communicating with contractors, *“obviously a lot of our people talk to HP customers, you get a lot of negativity from there and it just passes*

*down the chain,” (C3-14-6). The foregoing has confirmed that uncertainty and insecurity are present at all levels researched in the HP UK REWS group and there is no additional information useful to the analysis in further responses. Some elements of communication such as rumours have already been mentioned and the focus now moves to responses to the communication process.*

### **HP Communication of the M & A**

This question sought to elicit how employees and contractors felt about the communication process. Responses are very critical and continue the themes of uncertainty and insecurity. The analysis begins with a representative selection of initial responses of how HP has handled the communication process, *“not as good as it could, not by a long way,” (A3-17-5), “well I can only say poorly, purely because there’s been so little communication,” (B3-13-16), “I personally think it’s quite poor,” (C3-16-19), “It’s definitely poor,” (D3-17-1) and “Very badly,” (G3-18-19). However, while interviewees felt the communication process was poor at their level some responses indicated the initial communication was excellent but aimed at very senior management levels. This is shown by, “There have been high level statements which have been quite forthright really passionate and quite convincing but a lot of those messages appear to have been directed at, shall I say, a management level of HP rather than people who do the job,” (A3-17-7) and “I think the global yes that was, that was done quite well. When it got down a little bit further down the organisation, things went a bit askew mainly geared to timescales I think slipping,” (H3-16-6). This must have contributed to the uncertainty and insecurity as the communication process appears to have failed to inform at all levels which is an objective outlined by Barrett (2002) earlier. There is also evidence of the breakdown of HP values in the communication process as shown next.*

*“I saw HP people being treated poorly and being communicated and left hanging so I’m only left to assume that if they’re prepared to do that to their own people then almost definitely it will happen to partners and sub-contractors and that goes back to the very first questions about the HP-Way, that’s not the way it was done,” (B3-13-26) and “I think HP did have this big general fear though that all the news they had to give wasn’t good news so it’s best not to tell anybody anything, it’s better to have them wondering I guess than to know the truth isn’t it and then take a downturn,” (D3-17-12). This change from the original open*



egalitarian HP to a secretive and one-way communication HP that is perceived to not value its employees and contractors (from chapter three) is further confirmed in other responses. *“I know a lot of people that are disgruntled, HP people that are disgruntled are working the bare minimum to their leave date and they really don’t have the same sort of interest and passion,”* (D3-17-25) and *“we’ve gone away from the HP-Way where you were actually dealing with people we’re now into this harder tougher regime where you’re dealing with numbers, numbers don’t count,”* (G3-18-21). Returning to the communication responses it is clear that interviewees felt there was a distinct lack of communication after the initial announcements and this is analysed next.

*“Some of the staff that I work with in REWS are equally despondent that they see those messages from on high but they don’t actually see them coming from the people above them,”* (A3-17-30), *“the employees constantly ask for updates and there’s no change, management above you wonder if anything’s happening and you keep saying no. Long periods of silence creates uncertainty,”* (B3-15-25), *“because of the general feeling of not knowing where we’re going we tend to feel or perceive like we’re not getting enough information only because the real information we want is what’s going to happen to us,”* (E3-13-8) and *“we’re drip-fed little titbits of information but not enough to put the whole picture together,”* (G3-18-26). There are many other negative interviewee responses concerning the communication process but it is clear the general view is HP failed to manage the communication process according to interviewee expectations. This is partly because HP was changing from its original values and because of the perceived delays in HP communicating outcomes of the M & A restructuring process. These delays and lack of communication are noted in many of the interviewee responses.

*“somewhere the message is being lost because we don’t see the message being delivered right the way through,”* (A3-19-29), *“the employees constantly ask for updates and there’s no change,”* (B3-15-25), *“we find out scrap bits of information from ad-hoc people,”* (C3-17-6), *“What we’re being told isn’t, isn’t really very substantial,”* (E3-13-3) and *“we’re human beings we start to imagine all sorts of reasons behind lack of communication, delays and that did increase very much the uncertainty and worry for a lot of people,”* (H3-16-25). Clearly these delays and lack of communication prolonged a very difficult time for

interviewees but other comments surfaced in answer to this question that tended to criticise the M & A itself.

*“It’s alright saying to somebody, “you have to be committed, you have to keep producing, you have to keep working, this is for the greater good but, and again because I’m not privy to all of the things that come out, although I have read some of the web sites, I’ve felt that there’s too few people who’ve seen or can see an end benefit,” (A3-17-10) and “this used to be such a great company they used to have such a great reputation and you know, there’s somebody been brought in to, to wreck that, I know that’s an extreme but sometimes that’s the way that it feels,” (D3-18-9).* The last response can be viewed as extreme but as it refers to Fiorina it does triangulate with data sourced from the literature and confirms the lack of confidence in senior management. We now move on to the final question in cycle three that asked interviewees what they would do differently if they were managing the acquisition process..

### **Differences if Interviewees Managed the M & A Process**

This question was designed to elicit responses that interviewees may have missed in the more direct questions by approaching the subject from a different perspective. Responses focused predominately on communication and how that should be improved. Other responses criticised the merger, the demotivational outcomes from it and the impact on people and HP values. The analysis begins with a representative selection of interviewees views on the communication process.

*“if you’re saying to me what would I have done I think improved the communication,” (A3-20-23), definitely communication with contractors, because obviously contractors like us, we’ve been with HP for over ten years, we’re part of HP really,” (C3-19-10), “I would like to say I would be able to improve the communication and not seemingly demotivate the employees,” (D3-18-29), “I would try and be up front and honest as much as I can and try and keep the communications flowing through,” (F3-24-17) and “I personally wouldn’t treat contractors any differently from a communications point of view from employees,” (G3-24-7).* Similar to responses in previous questions, these responses are critical of the communication process and also indicate how integrated contractors were within the HP organisation. While analysing the responses from the content analysis it is difficult for me to differentiate between



contractor and HP employee responses as the coding is by letter and not by name further confirming their integration. Returning to the communication responses, it is clear interviewees were very critical of the process but did they also provide any solutions?

*“if you could just even communicate high level plans, you can’t expect anyone to communicate what’s going to happen to you but just a plan, timescales, lead-times, just so that you knew those sorts of things,” (B3-16-11), “every week there’s change at the moment within the company so why don’t we tell people good and bad,” (F3-24-23), “there seems to be a fair amount of thought given to the top echelons but nothing at all at the bottom and all I’d like to see is more consideration being given to people at the lower end of the scale instead of all the concerns being at the top,” (G3-21-22) and “I would have made sure that the employees, well at least the employees at the lower level were, were kept more informed on a more regular basis about what was actually happening,” (J3-18-7).* According to the interviewees then, communication of an M & A should contain the advised steps outlined by Barrett (2002) earlier in this chapter, for example, interviewees suggest lower level people were not kept informed whereas Barrett (2002) advises employees at all levels are informed. However, there is another dynamic here that needs to be considered.

Given that a substantial number of HP employees opposed the merger from the evidence produced earlier it can be assumed this would have affected the communication process. Further, the initial communication was too rich according to some interviewee responses which agree with Weick’s (1995) view that this creates confusion. It must be clarified that the richness of data was partially caused by the opposition to the merger and resulting claim and counter claim by the opposing groups of HP and Walter Hewlett, for example, commenting on the volume of mailings to shareholders during the proxy fight Burrows (2003:225) states “the sheer deluge of paper became preposterous.” Add to this the interest from the media then employees and contractors were faced with a vast array of communication. This was commented on by interviewees, *“it’s the things we’ve read in, let’s say, like the Financial Times, we know about the share prices and we know the general feeling around HP, we can sense that, we hear things about that, so it hasn’t persuaded us that it was a great thing,” (E3-16-2) and “Initially there was a lot of communication, it was over, information overload, the first few weeks when it was all announced but*

*then it seemed to drift off,*” (F3-26-4). This last response also confirms the appropriateness of Barrett’s (2002) approach of ensuring clear and consistent messages in the communication process. All interviewee responses indicated they wanted an improved communication process but their expectations differ in how this should be delivered.

*“literally had a team of people to go around and test that the message that is clearly going out at the top is actually coming down and at the level that it needs to be from, shall I say, middle management down,”* (A3-20-25), *“I would have certainly said that key HP hosts should have spoken with their respective partners and run through all of the scenarios that could happen,”* (B3-17-19), *“I would maybe have gone round to all the staff and had a good talk with them personally and told them this is what’s going on,”* (E3-15-2), *“I think you could do the initial contact by e-mail but then with a follow up because everybody’s got questions and going round on a personal basis with team or group meetings,”* (G3-23-22) and *“communication highway if you like, it needed to go both ways and it really needed to start at the bottom, go up to the top and then come back down but what happened was it started at the top and collapsed then,”* (J3-18-22). This range of responses shows the variation in expectations but these expectations are how HP previously communicated with its people. Some responses indicated they wanted more meetings while others disagreed, for example, *“I don’t like ritual meetings to tell us nothing there’s no point in that but there again we should have been kept informed as to what was going on,”* (J3-16-3). Evidence produced earlier indicated how communication was changed to a top down, one-way approach and communication in the M & A process followed this new approach. Therefore, interviewees appear to be continuing to reject the new HP and its new values. From the psychological contract perspective this also appears to confirm interviewees want a relational rather than a transactional contract. This rejection of the new HP values was also apparent in other interviewee responses to this question that are somewhat cynical.

*“I believe that the reason this whole acquisition went ahead was for the benefit of one person and really there were no long-term goals other than one person’s survival and one person’s survival has created a huge amount of uncertainty,”* (B3-19-2), *“I think somebody somewhere would have decided that this company only became great because of the people it employed, how we developed them,*



*how we looked after them so the last thing that they'd want to do then was to basically break down everything that the company was founded on," (D3-19-27) and "it's a shame that the question wasn't if you had the opportunity to have a merger with Compaq I would have said don't do it," (J3-18-3). This cynicism is apparent in other responses but also tends to support Burrows (2003) observation of the special bond between HP management and its employees being shattered.*

A final two responses in this section not only continues the cynical theme but, in my view, summarise the M & A process from the employee and contractor perspective, *"please don't give us any problems, please don't make any mistakes, we're not going to tell you what's going on and we may not want you in a few months time but please don't give us any problems while we're making our decisions," (B3-17-25) and "the news of the proposed twenty-five billion takeover of Compaq coincided with the same day they were removing the free fizzy drinks from the London Sales office which brought quite a few obvious comments you would expect," (D3-2-13). So far the analysis has examined interviewee responses to the identified outcomes of emotive issues and communication. The next part of the analysis examines the cultural integration of HP and Compaq from the interviewee perspective.*

Cultural integration and its progress were not specifically questioned during the interviewing process but responses identified are categorised as a sub-set in the content analysis. The approach adopted here is similar to the framework of the psychological contract, i.e. it would probably be difficult for interviewees to answer direct questions but important data is to be found in their responses to other questions. HP certainly viewed cultural blending or integration as important as shown by the earlier analysis of the HP management approach but the evidence from interviewee responses tended to focus on a perception that Compaq people were dominating the process. This differed from an initial expectation, for example, *"I think everybody to start off with just genuinely believed that HP would be the dominant company and there wouldn't be a problem," (D3-13-3). This expectation was probably based on other acquisitions where employees from the acquired company just transferred into HP such as Bluestone Software (Burrows 2003). However the magnitude of the Compaq acquisition was of a different order and the resulting integration also differed. "I would say that it's very Compaq biased, Compaq people say it's very HP*

*biased,” (H3-2-18), “we’ve also got to take into account that the company we’ve taken over, Compaq, if you look at the dominance in terms of number of places it seems to be disproportionate,” (I3-12-12) and “it seemed to be biased towards Compaq the jobs had a definite swing towards Compaq and that wasn’t just in the area that I work in that was in others that I’ve heard about too. One particular example, I heard of a fifteen to one swing to Compaq in the sales organisation,” (J3-3-7).* While the first response indicates these perceptions were shared in the merging organisations the other two perceive a Compaq bias. There is no data available on the actual numbers of employees integrated or made redundant from both organisations. However, these responses show this was viewed as important by interviewees.

Overall there is little evidence in the interviewee responses that integration was in the forefront of their thinking perhaps because they were focusing on their own fears and insecurity during this difficult time. There is some evidence of the different operational approaches though which was outlined in Table 4 above and confirmed in the following response, *“if you merge with another organisation you import their culture and that’s happening. The HP-Way doesn’t exist any more the Compaq culture of go in hard, that seems to be the way things are at the moment and everybody is expected to change from the HP-Way to the new imported culture and you talk to people, they don’t like it because it’s not the HP-Way of doing business, it is now but it’s been enforced,” (G3-6-2).* This response is a reflection of the more aggressive Compaq culture (Table 4) but also tends to agree with Schein’s (1999) observation of HP employees being *coercively trained* as shown by the use of the word enforced.

A further response indicated another change from the HP respect for processes to Compaq aversion (Table 4) as shown by, *“we’ve had to redefine service level agreements because pre-merger Compaq service level agreement wasn’t as strict as pre-merger HP’s,” (F3-11-3).* This change is also confirmed by other responses such as *“I’m the sort of person that likes to complete a job and feel they have done a full or rather completed it in a sensible amount of percent and yes move on to something else whereas now maybe we’re doing something to seventy percent, seventy, eighty percent and thinking right OK, that’s enough move on,” (H3-14-4).* However this is not unanimous as other responses indicate more bureaucracy and extended processes, *“it seems to be more bureaucracy has been introduced to get a simple job done,” (A3-5-23).*



Therefore it appears that some functions are adopting the Compaq method and others are becoming more bureaucratised. As this research was conducted early in the merger process it is not clear what the final result will be but it can be assumed that consistency of approach will be achieved in the future. As I was involved in some meetings with Compaq people and was involved in the early stages of integration before I left HP I witnessed some of these changes and this is described next.

### **Personal Reflections of the Merger Process**

I agree with most of the observations produced by interviewees and noticed the uncertainty, insecurity and some instances of fear in the day-to-day operations of the merged company. My reporting HP employees and contractors were continually asking for information about what was going to happen and when. I was unable to give any definitive answers as the communication process appeared to have broken down. I will now present some extracts from my research diary that show my interpretation of events at this time.

*12/02/2002. I'm really fed-up today, I'm disillusioned with HP and all it now stands for, the petty bureaucracy, the zero pay increase, the pathetic attempts by management to lift morale by organising a Thursday lunchtime car boot sale, (no, this is not a joke!), the overall feeling of depression and gloom within the company. When is this going to change?*

*25/04/2002. Both (HP employee) and I expressed a wish to take the severance package next time it's offered. Everybody just wants to get out of this company.*

*14/05/2002. Still totally fed-up, when are we going to know our fate? I can't plan for the future, i.e. when to contact agencies, what to do with the doctorate and so on. I just need to get the severance package and get out of this company.*

*14/08/2002. Still no news on what's happening to the organisation. Various metaphors are being used for the process ranging from parallels to the Auschwitz experience, i.e. thrown into cattle trucks (in the dark) and not knowing your destination to labels such as "mushroom country," i.e. kept in the dark and fed on bullshit!*

*18/09/2002. Well, we still don't know what's happening; more announcements have been made in other groups. First question when I arrived for work this morning was, "are you still a mushroom then?" Spoke to some other fellow mushrooms; they have not heard anything to date.*

*03/10/2002. Well it's finally happened and I have attended a meeting where I have been provisionally selected for redundancy. No surprises here as I'd guessed this was coming. I feel OK about this as this is not the same company now and they treat their people so badly compared to before. It's certainly not the company I joined. I'm not depressed at all in fact I feel a sense of growing excitement at finding the next big challenge. I telephoned the outplacement people within minutes of returning to my desk and had updated my CV within 30 minutes!*

*05/11/2002. I have not written in the diary for a while because I'm trying to understand how I really feel about leaving HP. I'm really pleased I'm getting out as they appear to be dumbing-down the company and many high level activities will be scrapped from the present group because of resource issues. The demand will not go away and these specialist activities will circulate around HP until an owner is found or it's passed to consultants, i.e. raising costs dramatically.*

*02/12/2002. Observations in the workplace include a steady decline of inclusion in activities, e-mails and phone calls concurrent with handing over responsibilities to new owners. I am beginning to feel I don't belong now but there is no tangible reason for this as everyone remains friendly as usual. Perhaps it's the very act of passing over the responsibility that has generated this feeling. I have also moved desk again probably for the last time in HP which means a total of 15 desk moves and 1 building move in 18 years!*

These extracts from the research diary show the interminable delay from the announcement of the merger to the announcement of the new structures and whether people would be continuing to work for HP. I decided not to appeal the process or apply for any other roles within the company as in my view this was not the company I enjoyed working for and now I had the severance package I just wanted to leave. However, my ingrained traditional HP values would not allow me to leave immediately as this would have been unfair on all of my



reporting HP employees and contractors. Also I needed to gain a last burst of data sufficient to complete this doctorate. I finally left HP at the end of January 2003 after ensuring I had met all of my team, thanked them for their outstanding effort and support over the years and ensured all the contracts would continue operating as before.

There were numerous rumours during this time as people speculated about their futures. There were a small minority of people within UK REWS that were in favour of the merger but most people in my circle were against, or claimed they were against. I had completed a feedback form for corporate shown in Appendix G showing why I opposed the merger. I realised that in the new HP this may contribute to the loss of my position but I was quite happy to take the redundancy package and leave for the reasons outlined in chapter three, and in the research diary. So I felt I could be open and truthful with my response in the feedback form. However, if I had wanted to stay I would have completed this form differently as the trust had gone and it was dangerous to be open and honest now.

Moving on to my experience of the integration of Compaq, I found the employees were generally aggressive and was even shocked during some meetings at how they dealt with their contractors. I can only describe their behaviour as rude, demeaning and aggressive which was a genuine surprise for me as this type of behaviour was never tolerated in the original HP and would have been reported to HRM or certainly escalated to higher managers. I hoped this was an isolated example but subsequent feedback from others confirmed this was how they operated. I discussed this with one of the contractors subjected to this behaviour and his view was we have to put up with this to keep the contracts. However, in meetings with more senior ex-Compaq managers the behaviour was similar to HP indicating either they were changing to achieve assimilation into HP or that this type of behaviour was only acceptable in the lower levels. This completes the analysis of the primary data for cycle three and findings from this are presented below.

## **Findings**

Continuing the method from the previous cycles, findings are presented as answers to the objectives of the research and examining the contribution to the central research question. The first objective of understanding how employees

and contractors have responded to the Compaq M & A process has been achieved. The uncertainty and insecurity identified before the M & A has continued during the M & A process with some interviewees attributing this directly to Fiorina. Further erosion or elimination of the HP-Way was commented on and this cycle of research continues the earlier findings of loss of morale and demotivation. Significantly, the new HP-Way was not mentioned indicating how enduring the original HP-Way is in the memories of the interviewees and how difficult it is to change this. This agrees with the culture quote earlier, *“The stronger the culture, the harder it is to change” (Deal and Kennedy 2000:159)*.

The key finding in this cycle appears to be the legitimacy of the M & A according to the responses. If the M & A is viewed as not legitimate, contravening the HP-Way and a violation of the psychological contract then all of the other succeeding steps of implementation will be problematic. While HP senior management followed a strategy of communicating the various steps and consequences of the M & A it probably underestimated the resistance to this strategy and this is evident in the interviewee responses. Further the clear evidence of resistance to senior management identified before the M & A announcement would also have contributed to the perception that the M & A was not legitimate.

This concept of legitimacy is mentioned by Bijlsma-Frankema (2001) in the structured integration approach outlined earlier. The significance of this is, unless the M & A is viewed as legitimate then further integration steps will be difficult to achieve because legitimacy is the first step and a precondition for subsequent integration steps. But why should employees and contractors view the M & A as not being legitimate when senior HP management had explained this as the right strategy for the future of HP? The evidence provided earlier should be sufficient justification but to reiterate, both the Hewlett and Packard Foundations and families, the majority of US pension funds (as investors) and Wall Street opposed the merger. Therefore who should employees and contractors believe, HP management or the institutions cited above? This dilemma was probably very unusual, perhaps even unique in an acquisition process and therefore employee and contractor responses should be judged accordingly. This is also a poor reflection on the HP board in terms of failing to ensure the M & A was perceived as legitimate by all directors before progressing



with it (Burrows 2003). All interviewees were very critical of the communication process and findings from this are outlined next.

It is clear from the interviewee responses that they felt starved of information and used various techniques to try and overcome this. This varied from generating rumours, searching web sites and business literature and actively asking people within the company. There is also evidence that contractor managers were being asked by their direct management for information they were unable to provide. The initial communication process initiated by HP at the corporate level was viewed as comprehensive, even passionate by interviewees but then appeared to dissipate as the M & A progressed. Contractors appeared to be totally excluded from the communication process which caused them many concerns as they were unable to pass any information to their teams. HP UK REWS contract managers including myself were also waiting for information and were unable to advise contractor managers of what was happening. This lack of information was itself a violation of the psychological contract, contravened the original HP-Way and the uncertainty caused is evident in interviewee responses. However there is some difficulty in identifying the most appropriate media and structure for communication as interviewee expectations differed.

This raises the question of how can management ever design the most appropriate communication strategy in M & A situations if audience expectations differ? While lack of information was clearly the primary issue after the initial information overload, interviewees were focused on what was going to happen to them personally. Also the mixed messages interviewees were receiving through press comments and web sites probably gained more of their attention than would otherwise be the case because of the lack of information from HP. This probably increased their uncertainty and insecurity as the general view from the press and other sources was negative. However, HP management were in an impossible communication situation because they were restructuring the company from the top down while merging Compaq simultaneously. Therefore as the restructuring was progressively announced by level interviewees could only wait for this to get to their level. So any improvement in the communication process can only be directed at the method of restructuring the company and therefore at the legitimacy of the merger itself.

The second objective of identifying any shortcomings from the M & A process has been partially answered above. Other shortcomings identified by interviewees generally relate to the uncertainty, stress and insecurity exacerbated by the M & A process. As this is viewed as a continuation from the previous state of HP, before the M & A, it is difficult to ascertain the degree of impact although it certainly did not improve the situation. The interviewee comments of not knowing who was responsible for activities and who was reporting to who certainly caused problems. Other responses that related to declining trust and contractors losing the HP contacts they trusted and had worked with for some time again contributed to the uncertainty. There is also more evidence of HP's declining employment brand, increased cynicism and a more short term, mercenary attitude. Responses such as questioning whether an interviewee would work for a large corporation again, shorter term outlooks and waiting for redundancy packages reinforce these findings. The analysis of the cultural integration of the two companies indicated perceived bias in employee selection in perceptions of interviewees but did not produce any findings of significance beyond the preliminary analysis and literature review. The next part of the findings analysis for cycle three identifies any recommendations for improving the M & A process for future acquisitions.

The first recommendation appears glaringly obvious from the foregoing and from the extensive criticism it has received from authors such as Burrows (2003), the Wall Street press and the primary evidence. That is, ensure the board of directors are unanimous in its support of an acquisition before commencement. While this may seem obvious from a corporate governance perspective, HP's board failed to achieve this and this partially caused the legitimacy of the acquisition to be questioned by the very people that HP management should have relied on to support it, its employees. The second recommendation again appears obvious, but to some extent was affected by this legitimacy issue; ensure all employees and contractors are issued with a specific plan of communication with timelines and immediate updates if any delays are anticipated. This seems to be commonsense but again HP management failed to do this and this caused great uncertainty for employees and contractors.

The final recommendation from this third cycle of research concerns cultural integration arising from the M & A. While HP invested substantial time and resource in this activity as shown by the cultural due diligence study it tended to



focus on differences rather than on what the new culture would be. Assumptions were made by interviewees that Compaq would just be absorbed into the HP culture as in previous M & As but what resulted was a mix of increased bureaucracy and more aggressive working practices. The recommendation is therefore to specify at the outset what the cultural code should be and include contractors in this communication because they are expected to comply with its values. This code should be detailed and specific and not just contain the insipid values shown in Table 5 above that appeared to continue the trite “marketing-speak” from earlier corporate management communications (Burrows 2003). The final part of the analysis of this third cycle examines whether a contribution has been made to answering the central research question and this is presented next.

As with previous cycles, the psychological contract framework was used extensively to understand interviewee responses. Additional evidence was gained on the perceived change from a relational to a transactional contract with interviewees continuing to really want a relational contract. This continues the dichotomy from earlier cycles where interviewees are seeking stability and security while HP is seeking to make employees more disposable or is certainly giving that impression. There was no evidence of destructive behaviours apart from some exit perhaps indicating that interviewees were hoping for a return to original values and the original relationship with HP that they viewed as valuable (Rousseau 1995). The new psychological contract values continued to be evident in the responses therefore no discontinuity was noted in all three cycles and these new values appear to be enduring. This concludes the third and final cycle of research and this is summarised below.

### **Summary**

This third cycle has examined employee and contractor responses to the acquisition of Compaq Computer Company by HP. The themes identified as outcomes of a M & A process, emotive issues, communication and cultural blending or integration are all in evidence from interviewee responses. Financial and legal issues, as expected, were not mentioned at all by interviewees although they were deemed critical in the M & A process but viewed to be beyond the scope of this research. The emotive issues of uncertainty, insecurity, fear and stress were clearly in evidence and there is substantial data of the impact this had on employees and contractors in both their working and home

lives. New psychological contract values continue to be evident in interviewee responses indicating they are enduring and that the original HP-Way as a relational psychological contract continues to dissipate. Finally recommendations on improving the M & A process were made that should be informative for HP or other companies conducting this type of strategic implementation. We now move on to the next chapter and what is probably the most difficult part of the thesis, contribution to knowledge.



## **Chapter 8**

### **Contribution to Knowledge**

*“In all of my universe I have seen no law of nature, unchanging and inexorable. This universe presents only changing relationships which are sometimes seen as laws by short-lived awareness. These fleshy sensoria which we call self are ephemera withering in the blaze of infinity, fleetingly aware of temporary conditions which confine our activities and change as our activities change. If you must label the absolute, use its proper name: Temporary” (Herbert 1981:436).*

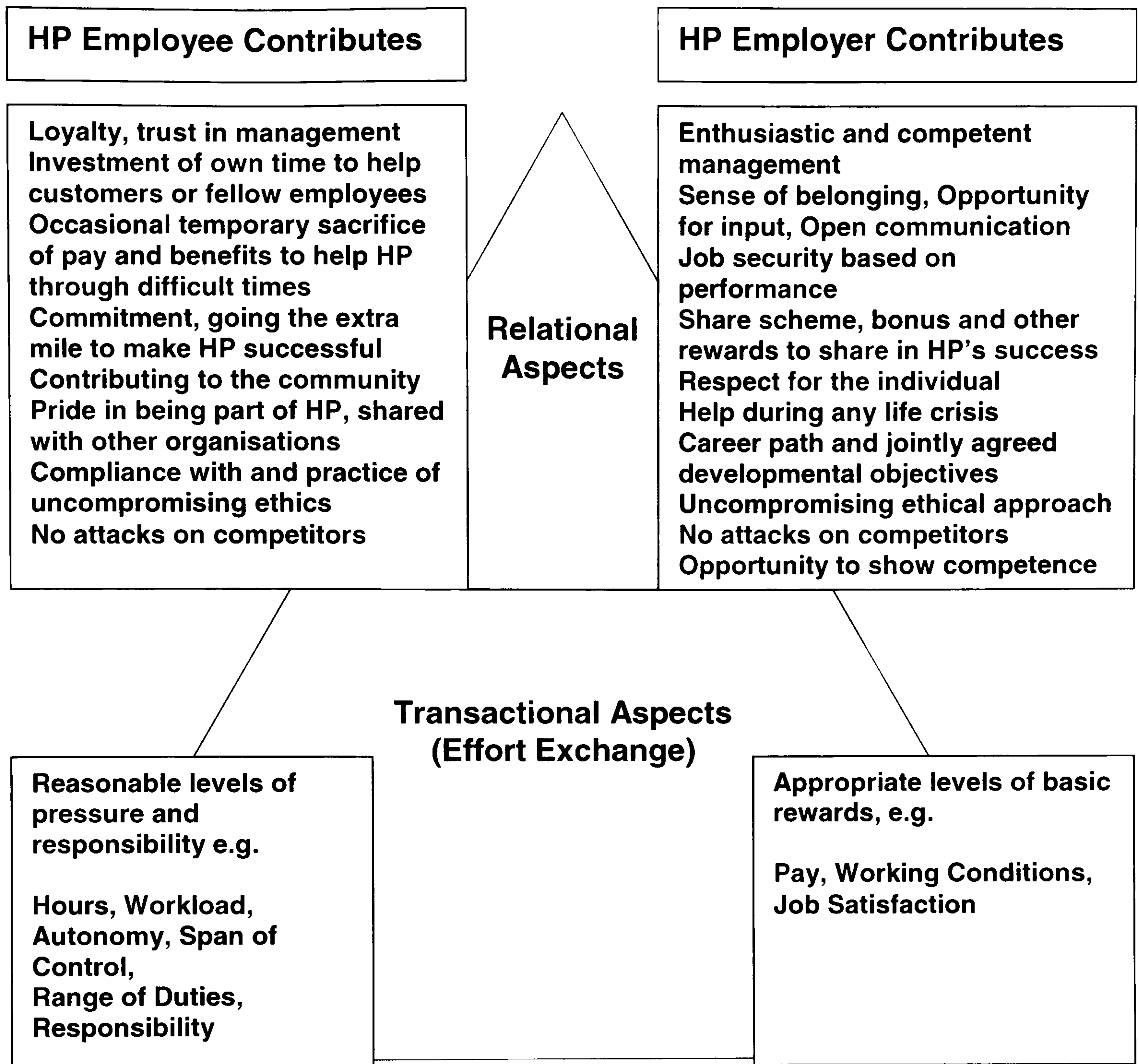
#### **Introduction**

This chapter seeks to identify what contribution has been made to knowledge and the evidence for this. All through my research cycles I have been assessing my contribution to knowledge. Many of the observations agree with previous works identified in the literature but it is important to identify if there is any contradictory evidence, gaps or differences to findings in the literature. The chapter is structured by addressing the research question then presenting models that represent the original and new HP. Identified contributions to knowledge are then presented with the relevant proof and links to the literature. I begin with the central research question.

#### **Research Question**

The research question of ““how does the evolving relationship between HP and its employees and contractors impact on the individual in times of strategic change” has been addressed through three cycles of research. The three cycles represent three clear examples of strategic implementation in HP UK REWS. While this is a relatively small study results should be meaningful and capable of generalisation to other departments within HP or other institutions that hire employees and contractors.

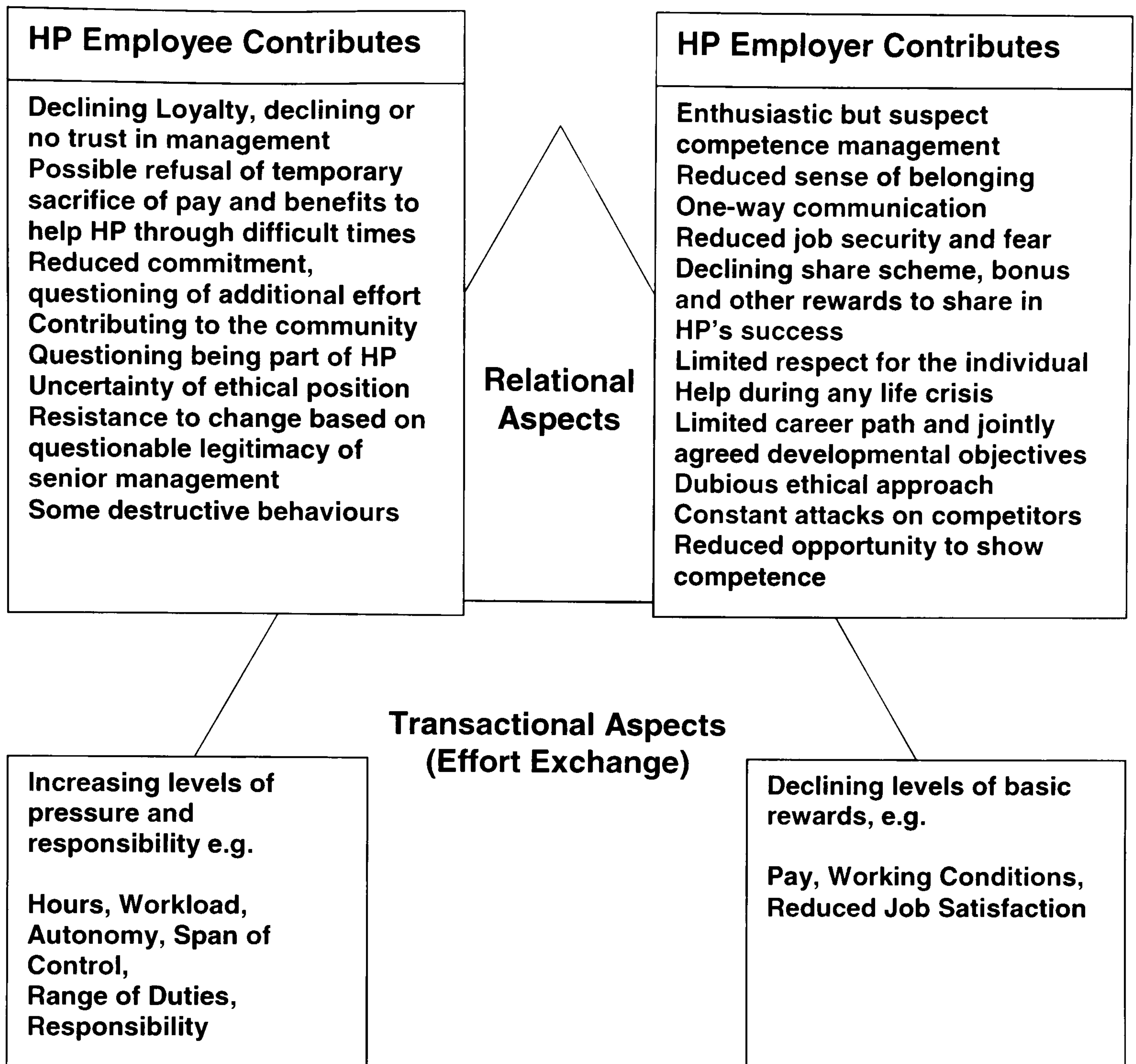
The psychological contract metaphor and the resulting framework examined in chapter two has proved a useful tool in understanding impacts on individuals arising from strategic implementation. The model produced by Maguire (2002:170) to examine the psychological contract has been adapted below to show how the original HP can be portrayed.



**Figure 4. Two-tier Model of the Original HP Psychological Contract.**

The relational aspects differ from Maguire's original model in chapter two by the increased range of aspects in the original HP. Psychological contract reciprocity is shown by HP providing increased security and rewards with employees investing increased effort in exchange. However the new HP is changing this and based on the research evidence, a model representing the new HP is shown in Figure 5 below.





**Figure 5. Two-tier Model of the New HP Psychological Contract.**

The changes in both relational and transactional aspects in Figure 5 are based on the evidence collated in the thesis. However, not all HP people will relate to this as shown by the support that Fiorina and the management team received from some employees. Nevertheless this is a fair reflection of at least a considerable minority of HP employees including the interviewee responses. It can also be argued that the relationship between HP management and employees is further declining as noted in the *Fortune* survey result, continuing pay freezes and further redundancies. HP management have recognised this as a problem as shown in Appendix A but appear to be failing to tackle it. There is also some recognition of the importance of the employment brand from the leaked e-mail in Appendix A as shown by “We know from our employees that we

still have work to do to make HP a Best place to work.” Therefore it is clear the evolving relationship between HP and a significant proportion of its employees is represented by a deteriorating relational and transactional psychological contract. But what is the contribution to knowledge arising from this?

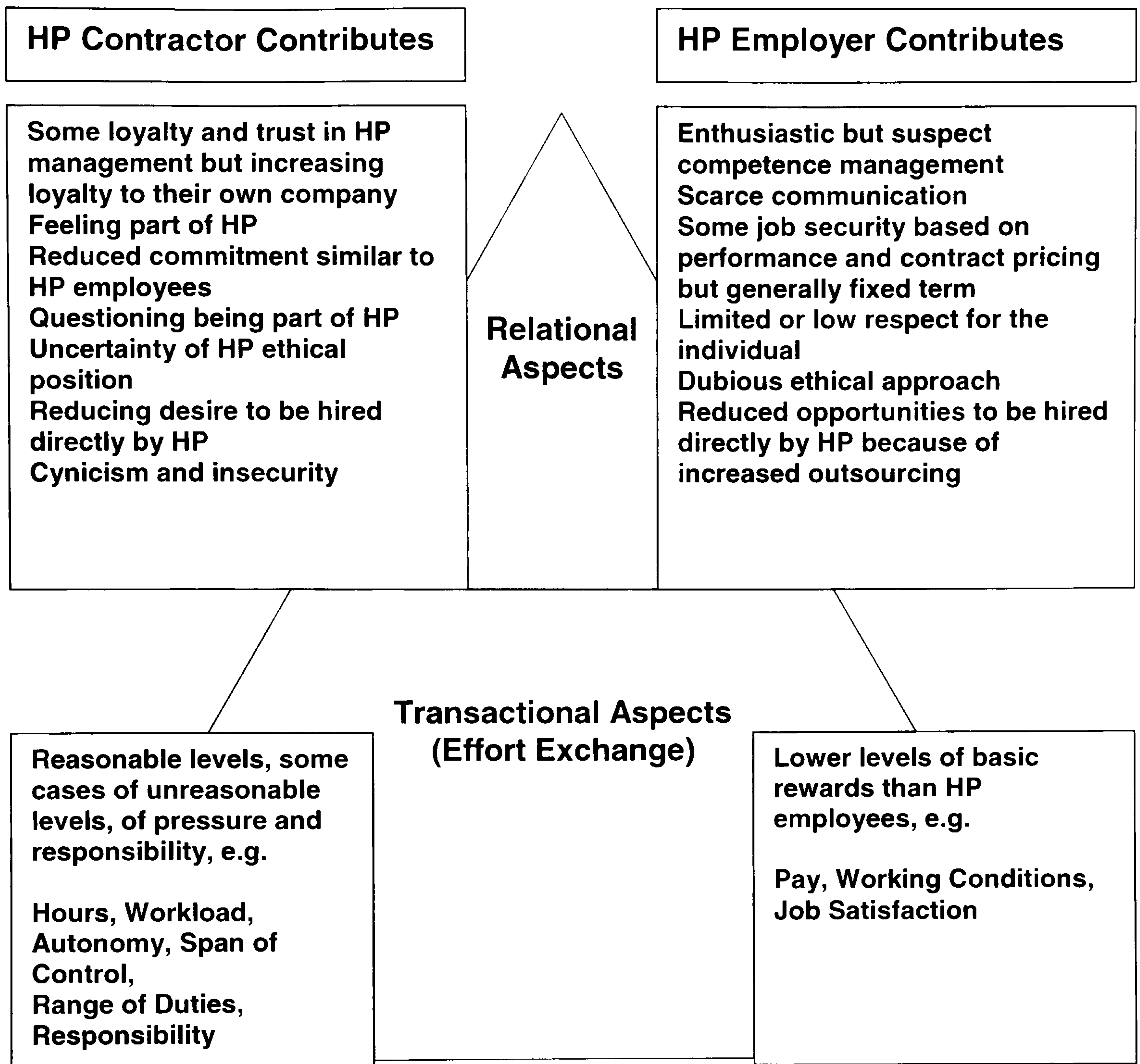
The research from cycle one showed the superior level of engagement and reciprocity arising from both the entrepreneurial business model and the original HP. Employees and contractors were clearly highly motivated at all levels, and that indicated their psychological contract expectations were balanced with HP expectations as shown in Figure 4. However, the change back to the platform model together with the broader changes in HP showed the beginning of perceived deterioration or violation of the psychological contract, (violation as a contribution to knowledge is examined in more depth later in this chapter). This deterioration continued in cycle two where many instances of a changing or new psychological contract were identified together with resulting constructive and some destructive responses such as exit (Rousseau 1995). In cycle three the deterioration continued with the merger and its resulting consequences such as continuing insecurity, uncertainty, stress and declining loyalty as shown in Figure 5.

This research has therefore shown the transition from the original strong relational psychological contract to the new, essentially transactional contract but not all aspects of new psychological contracts identified in the literature are apparent. For example, disclosure of information from Table 2 as part of the new contract is clearly contravened by HP together with the HP desire to maintain employee commitment while the new contract indicates flexibility and performance (Kakabadse and Kakabadse 2000). The integrated view and contribution from the research then must be one of a continuing transition of the psychological contract between HP and its employees and contractors. This continuing transition will be dependent on management policy changes and thus strategic implementation and may therefore oscillate between original and new contract aspects. But is the evolving relationship also affecting contractors?

### **Contractor Contribution**

Contractor interviewee responses certainly indicate their concern about the direction HP is taking and this is summarised below in Figure 6.





**Figure 6. Two-tier Model of the New HP Contractor Psychological Contract.**

The evidence produced in the cycles of research show contractors feel they are part of HP and changes are affecting them in a similar way to HP employees. Uncertainty, insecurity and cynicism, all components of psychological contract violation are all in evidence in contractor responses. This indicates that contractors are also experiencing a deteriorating relational contract but their transactional contract is probably similar to before because of the potential short term nature of their employment caused by contractual renewal. However, some responses indicate contractors are more conscious of the nature of their employment when changes occur within HP. So while HP strategic implementation may not change contractors transactional psychological contracts, it tends to raise consciousness of insecurity and has accelerated exit

behaviours in some cases (D2-12-6). But is there a contribution to knowledge here or confirmation of existing knowledge?

Millward and Brewerton (1999) found that despite findings from earlier studies such as Rousseau (1995) where contractors were assumed to be transactional in their outlook contractors did have a relational contract with host employers. This is confirmed in the findings in this research but the contribution to knowledge in this case is that host company employees tend to assume that contractors have a minimal interest in the host company and respond to them accordingly. This is shown by HP employees using contractors as “sounding boards” for their frustrations, failing to acknowledge them or showing hostility towards them. However there are some contradictions, some HP groups or departments were viewed as more friendly than others by contractors. Also there is some evidence that contractors tend to be labelled by HP employees as either resentful because they cannot join HP on a permanent basis or are just here for the money, agreeing with Kunda’s (1992) and Pfeffer’s (1994) observations. Nevertheless there is evidence of some change in how HP employees respond to contractors therefore the evolving relationship between HP and its contractors is improving but this is minimal. As the relational psychological contract between HP and its employees and contractors is represented by the HP-Way this is examined next from the perspective of a contribution to knowledge.

### **HP-Way Contribution**

The changes in the HP-Way represented by the Rules of the Garage and the findings of the subsequent cultural due-diligence study were not internalised by interviewees that indicates a wider rejection by HP employees and contractors. While this is representative of the evolving relationship, the impact on individuals has been one of rejection and perhaps a hankering for the original way of doing things. This is shown by many interviewee responses that praise the HP-Way and the dismay shown with change and its consequences. The contribution to knowledge is shown by how individuals have responded to this change and the resulting HP employee demotivation, declining engagement, demoralisation and the impact on contractors. To some extent this was predicted by Fiorina when she said that some people will not want to change or would be unable to change but the scale of resistance to her new approach was probably surprising. This



raises the question of how this contribution is important in the wider field of business.

The HP-Way as a relational psychological contract was a major contributor to HP's success historically as shown in the evidence. These values endured for decades and were internalised by employees and contractors during their everyday working lives. However there are other ways to run a business as shown in Rousseau's (1995) business strategies in chapter two and "IBM's command and control excellence to Microsoft's ruthlessness to the aesthetic perfectionism of Steve Job's Apple" (Burrows 2003:268). What is important here is the expectation that a company will continue with the model that made it successful and this expectation is clearly in evidence in the interviewee responses and other data from chapter three.

The HP-Way then is one way of successfully managing a business and despite the HP expectation of constant change in the workplace the magnitude of the changes implemented by Fiorina was greater than the expectations of HP employees and contractors. Additionally the legitimacy of the change in HP was questioned by employees and contractors resulting in considerable resistance. In extrapolating from this to the wider business world the lesson learned is that the magnitude and legitimacy of change is an important strategic consideration and may have disproportionate impacts when outside or beyond employee expectations. This leads on to the communication process which is the mechanism to both inform and help legitimise any changes made and the next finding that makes a contribution to knowledge is in how HP has managed the communication process throughout this research.

### **Communication Contribution**

The importance of communication within a corporation has been alluded to many times in the research and there are various recommendations arising from this. The failure by HP to contain employee dissent within the company by closing down the anonymous internal message boards appears to be naive as employees deprived of this outlet just vented their frustrations on external public message boards. Many examples of this were shown in earlier chapters indicating HP management misunderstood the consequences of closing the internal message boards and the resulting damage to the credibility of HP and both its employment and consumer brands. For example, how can consumers or

customers ever be convinced that HP is the right company to manage their IT investments when HP employees are angrily attacking their employing company in the public domain? This contradiction was commented on by Moynagh and Worsley (2001) who stated the importance of consistency in the brand. But what is the contribution to knowledge here?

It is clear that many employees need to communicate their grievances anonymously and HP or any other company or institution should recognise and use this to their advantage. Maintaining anonymous internal electronic message boards would give HP an understanding of not just any underlying employee grievances but also any employee approval for positive actions. This contrasts with the fear of complying with formal feedback channels noted earlier where employees tend to respond in the way they think HP would want them to without compromising their employment. This would also contain and restrict any potentially damaging responses going into the public domain. The contribution to knowledge therefore is in how to manage the communication process of employee disaffection with change effectively and contain this within the company. The other communication contribution to knowledge arose from the M & A communication process where findings indicated the difficulty of constructing a communication strategy when audience expectations differed and the outcomes from lack of communication.

The original communication during the M & A was comprehensive and perhaps too rich but what really impacted the interviewees was the lack of communication after the initial burst. It was argued that the M & A situation and the subsequent battle made communication by HP management almost impossible but there was a distinct lack of any reassurance to both employees and contractors that exacerbated uncertainty and insecurity. Compounding this was the perception that the merger was not legitimate and all the conditions were there for demotivation and demoralisation of the workforce. Further, as a relational psychological contract will become increasingly difficult to retrieve (Murphy and Jackson 1999) the question must be raised, "has HP irretrievably damaged its relational psychological contract with its employees and contractors with a combination of poor communication and dissolving the HP-Way?"

From the results of the *Fortune* survey and the continuous leaks of confidential HP Company information to the press it can be concluded that the relationship is



seriously damaged agreeing with Burrow's (2003) statement of the special bond between HP and its employees being shattered but is the relationship retrievable? The answer is probably no unless there is a complete change of leadership. HP employees and contractors continue to get mixed messages from HP management and externally. Fiorina and her management team constantly state the merger is working and HP is successful (HP5) but Wall Street analysts continue to attack HP performance as weak and continue questioning the merger. Articles criticising Fiorina as one of the worst US CEO's (Markman 2004; Newton 2003), criticism of HP's financial performance and the relatively poor performance of HP's stock price (the stock price is currently at the same level as 1995, Appendix B) logically must cause HP employees to question their management and any statements they may issue. Who should they believe their own management or Wall Street analysts and the press?

This contrasts with the original HP that was known as the "gray lady" of Wall Street because of its spotless credibility with investors (Burrows 2003). Therefore the impact on employees and contractors must be at least confusion if not some outright disbelief of HP management communications. The contribution to knowledge here is that communication at all levels with stakeholders must be seamless, accurate, credible and follow a consistent ethical code which contrasts with Fiorina's method of spinning the positive (Burrows 2003). Returning to the M & A communication or lack of it at the individual interviewee level, as employees and contractors are also stakeholders in HP then they should also be subject to the finding above. The next area examined from the contribution to knowledge perspective is psychological contract violation.

### **Psychological Contract Violation Contribution**

Destructive behaviours were identified in chapter two that tended to contradict Rousseau's (1995) finding that constructive behaviours result from violations of the psychological contract where the relationship is viewed as valuable by employees. Rousseau (1995) states destructive responses are most likely in an environment where there is a history of conflict, mistrust and violation, no voice channels exist and other people demonstrate neglect or destruction. It must be assumed that within the original HP the relationship between employees and the company was viewed as valuable, indeed perhaps more valuable than within comparative companies and there was no history of conflict within the

organisation. This is why this destructive behaviour is surprising as the original HP was such an open egalitarian company and destructive behaviour is the antithesis of all the original HP values, particularly the value of trust. Perhaps the violation of the relational psychological contract was perceived as more severe or extreme by the perpetrators than in other situations because the change was relatively greater. If this is the case then the magnitude of perceived change must influence how employees and contractors respond to strategic implementation and thus the impact on their psychological contracts is greater. Fortunately destructive behaviours in HP UK tended to be limited to exit behaviours though thefts within UK buildings were increasing which followed the global pattern from the evidence produced in chapter two. But is there evidence of all identified types of psychological contract violation?

From chapter two the identified types of violation were procedural, distributive and interactional. Procedural violation is evident in interviewee responses when changes are criticised and with the perceived dilution or destruction of the HP-Way. Distributive violation is shown by reductions in job security and benefits and the redundancies announced after the majority of employees voluntarily agreed to temporary salary cuts. Finally, interactional violation is shown by the diminishing trust in senior management and questioning the legitimacy of the M & A and HP management. The contribution to knowledge arising from this is in how this multiple violation has changed how employees and contractors think of HP as their employer. From the evidence earlier, the creation of a mercenary employee was proposed who would focus on personal gain and achieving positions where an employer can be exploited. This is the antithesis of the HP-Way where teamwork and exchanging commitment, loyalty and enthusiasm for job security and superior benefit packages were the norm. Arising from this is the disturbing view that if HP, with its formerly open and egalitarian environment, can create mercenary employees then there is an understandable risk for companies with less seductive cultures. The contribution to knowledge therefore is in understanding that the consequences of strategic implementation beyond employee expectations together with the outcomes of new psychological contracts may lead to unacceptable and costly employee attrition and mercenary behaviour which may force a return to relational psychological contracts in the workplace.



However, evidence suggests that relational psychological contracts may not be retrievable and that increased cynicism generated by violation is internalised by affected employees and is transferred to new employers. It can be argued that employers such as HP who previously maintained strong relational psychological contracts with their employees are beginning to realise the consequences of this breakdown in trust but it may already be too late to reverse this. This leads to speculation on how companies can motivate and retain mercenary employees. Logically financial reward will be the only motivator but even this is questionable as will be seen later in the managerial perspective.

Returning to the research question of how the evolving relationship between HP and its employees and contractors impacts on the individual in times of strategic change and any additional contribution to knowledge perhaps the most important contribution is the research conducted in the real-life or natural setting. Works such as Burrows (2003), Anders (2003), Collins and Porras (1994) and Peters and Waterman (1982) were all essentially conducted externally to HP while this research was conducted within HP and then compared with these external works. This gave the research an inside-out perspective rather than the outside-in perspective demonstrated in the works above or what Robson (1993) would label as participant observation. However, there is a difference as Robson (1993:194) states that a key feature of participant observation is that the observer seeks to become “some kind of member” of the observed group whereas I was already a member of HP UK REWS. While this approach has been criticised as being unscientific I have tried to use rigorous methods to challenge this and as Alvesson and Sköldbberg (2000:193) have commented, “the availability of different perspectives increases and the scope for more interesting interpretations is much greater.” This concludes the contribution to knowledge chapter which is summarised below.

### **Summary**

This chapter has identified where the research has made a contribution to knowledge and not just reaffirmed existing knowledge. Models of how the relationship between HP and its employees and contractors is evolving have been presented and impacts on individuals have been outlined. Additional areas where a contribution to knowledge was identified such as communication and psychological contract violation have been presented. Finally and probably of most importance is the conclusion that the relational psychological contract

between HP and its employees and contractors is irretrievable unless there is a complete change of leadership and strategic direction within HP. The research was also designed to make a contribution to professional practice and this is addressed in the next chapter.



## **Chapter 9**

### **Contribution to Professional Practice**

*“Continuous change has taken away our sense of organizational stability, our ability to predict what will happen. Changing conditions mean that there are no longer any right answers, only those appearing to be the best at the time” (Bowerman 2000:124).*

#### **Introduction**

After working on this research for over three years it is sometimes difficult to reflect back and understand what has been achieved from a professional practice perspective. Questions such as what evidence is there to show improvement and how can I prove this tend to become buried in the day-to-day operational turmoil of managing a complex organisation. Moreover, leaving HP when I did prevented me from implementing some of the results from the research. However, I can take this experience with me to new organisations in the future and hopefully make a more informed contribution than previously. This chapter begins with an analysis of what has been achieved from the professional practice perspective with some supporting evidence in the appendices such as e-mails. The chapter is structured by the three cycles of research conducted and contributions from the three cycles are presented separately. The key objective is to identify from the research any forms of professional practice that will help managers in discharging their responsibilities more effectively, particularly in relation to managing employees and contractors in changing environments. I now present the contribution from the findings of cycle one.

#### **Cycle One Contribution**

When this research was conducted the business model was already changing back from the entrepreneurial model to the bureaucratic/platform model within HP UK. While the entrepreneurial model was shown to be more effective, the initial conclusion reached was implementation of an entrepreneurial model within an internal market was unlikely to reoccur in the future because of technological change. Therefore the outcome from this cycle was to identify how entrepreneurial attributes could be implemented within a platform business model to continue the positive working environment these attributes tend to generate. The attributes identified were, an improved business focus,

empowerment, a sales type environment or market orientation, open communication, precise cost control and improved motivation. All these attributes are highly desirable from the perspective of a successful business but the difficulty is in implementation within a bureaucratic or platform environment. The evidence from both HP employees and logistics contractors showed their preference for this business model and their reluctance to revert to a platform activity. The contribution to professional practice therefore is the identification of the superiority of the entrepreneurial business model within an internal market in this particular case. But is this generalisable in other businesses?

It can be argued that small businesses already have a similar approach and therefore this business model is only suitable in larger companies or institutions that have bureaucratic or platform functions in their structure. The creation of an internal market does have difficulties such as transaction costs but improving technologies should minimise this and give a business a true grasp of its cost structure. The other consideration is whether the company has a suitable environment for competition between its departments. Perhaps this is only suitable for a company with organisation "A" attributes (Schein 1984) where a combined competitive and collaborative environment is achievable. In my experience with HP the open egalitarian culture allowed this type of environment before the changes initiated by Fiorina but it is questionable whether other types of organisation would be suitable. Further, the present environment created by Fiorina would probably not be suitable for this approach now as the attribute of trust has dissolved as shown in the evidence. Therefore the only advised course is to implement the positive attributes from this model in other businesses if conditions are unsuitable for a full implementation of the EBM. But what is the overall contribution to professional practice from the evidence in this first cycle?

The superiority of the EBM over the platform model has been proven from employee, contractor and operational perspectives in this particular case. This differs from the findings in the literature where no clear conclusion was reached about the efficacy of a bureaucratic or entrepreneurial business model. The contribution therefore is the identification of the entrepreneurial business model and its attributes as a superior business model operated within a working environment where there is a strong relational psychological contract between employer, employees and contractors. This concludes the analysis of the



contribution to professional practice from cycle one and cycle two is addressed next.

### **Cycle Two Contribution**

Cycle two examined the outsourcing business model and the preliminary research resulted in the publication of an article in the Chartered Institute of Logistics and Transport Journal, Focus (Appendix E). After the publication I was surprised by the number of responses I received from all over the world, from Beijing to Kosovo and the UK. They all tended to agree with my article and some asked how they could implement a partnership approach in their particular industry. Also resulting from this article I was invited to address the 2001 Scottish Logistics Conference and to meet with a leading UK distribution company to advise on their outsourcing strategy. A copy of relevant parts of the conference presentation is shown in Appendix H. Completion of the cycle two research was shared with BSc, marketing students at Oxford Brookes University as I was invited annually to share my experience of value chains with them. This is all evidence of my contribution to professional practice external to HP and the responses received encouraged me to believe my research was valid and meaningful from their perspective. This leads to questioning now whether my contribution was valid and meaningful within HP.

Because my severance from HP was timed at the completion of my cycle two findings, many of the identified areas of best practice could not be implemented. However, the prevailing Business Logistics outsourcing model had been developed to a partnership approach over some years and I was working on implementing this with the print and security functions before I left. This resulted in some significant savings as the three activities became more integrated and the print and security contract companies began responding to a partnership approach. Examples included deferred or staged contract pricing increases and activity transfers between contractors leading to further cost savings. Therefore, while further improvements were planned changes resulting from the previous research were already beginning to work despite the negative HP environment. Similar to cycle one the overall contribution to professional practice from cycle two needs to be identified and outlined.

The key finding of the potential development of mercenary employees is probably the most worrying from a professional practice perspective. Evidence

from employees and contractors has found that they prefer job security and quality of life over improved financial packages but employers such as HP are eliminating job security as confirmed in the evidence and from Table 2. The benefits of a relational psychological contract that includes the exchange of job security for loyalty and commitment clearly contributed to HP's previous success but this appears to be insufficient reason for continuance. Probably the worst case scenario arising from this change to a mercenary employee is of a workforce ready to leave at any opportunity, a willingness to exploit any given situation for personal gain and a self-centred approach as contrasted with teamwork, collaboration, commitment and loyalty. I believe this is already happening within HP, for example the two examples of declining loyalty from the research diary noted earlier (page 69) and from interviewee responses that mention people are not bothered, are waiting for redundancy packages and the increased aggression noted. Arising from this is the question of how can organisational managers retain key employees and operate their organisations successfully?

It appears that the only retention mechanism will be financial but even this is temporary if the employee just keeps moving to the highest bidder. Further, any employee contracts with penalty clauses can just be compensated for by a subsequent employer if that employer needs to recruit the individual. Another consideration is any difficulty in retention would logically impact on the employment brand and therefore create difficulties in recruitment. From a managerial perspective then, the creation of a mercenary workforce appears to be unworkable or certainly extremely difficult to manage but the new psychological contract and outsourcing is contributing to making this a reality. The contribution to professional practice therefore, is recognition of this phenomenon and the risks organisations face if they create the conditions necessary for a mercenary workforce to arise. The other contribution to professional practice from cycle two is the analysis of the maturing outsourcing process and this is outlined next.

While the outsourcing business model was viewed as legitimate by interviewees and benefits such as cost saving and flexible management were identified, questions were raised over whether outsourcing is an optimal business model in this particular case. Service provider companies were found to be improving their employee management practices and thus improving employee loyalty.



This suggests that the risk of outsourcing failure is reducing as outsourcing matures. However, there was some difficulty in disentangling the negative conditions in HP from the changing perceptions of contractors who were finding their employing companies to be more attractive. Nevertheless, there was clear evidence of more confidence in service provider companies by contractors resulting from job security questions. The research did not seek to arrive at a conclusion of whether an outsourced or in-house model was superior but the evidence suggests host company organisational managers can have increasing confidence in the outsourcing business model in this particular case. Identified negative behaviours of host company employees towards contractors can be addressed by host company contract managers presenting service provider companies as part of the team and not as separate entities. This would help in integrating service provider contractors and help reinforce the contractor view that they want to be part of the host company. The contribution to professional practice then is identification of the outsourcing business model as legitimate and how contract managers can best manage the outcomes identified from interviewee responses and thus reduce risks of contractors presenting “minimal selves” and help them feel engaged within the organisation. This now leads to the contribution from the third cycle of research.

### **Cycle Three Contribution**

The contribution from cycle three is also difficult to assess as most of the primary interview data was gathered just before I left HP. However, most of the evidence from the literature and from other sources such as web sites and contributions to my research diary were gained during the overall research process. So while I was in a position to assess this data the links to the primary data could not be established until after my termination date. Nevertheless, some clear recommendations were produced for cycle three but I was unable to implement or influence any of these in HP. Moreover, I would not have been able to implement many of the recommendations if my employment had continued but the contribution to any subsequent M & A activities in the future is important to note from the management practitioner perspective.

The key finding of legitimacy and the failure of HP to achieve this is a sobering thought in the M & A process. The evidence of continuing employee resistance, demotivation and destructive acts (Rousseau 1995) such as continuous leaking of confidential information to the press indicate HP continues to be a troubled

company. The mixed messages referred to in the previous chapter continue to be in evidence and while a recent statement by Fiorina that HP would grow its net earnings per share by 20% per year for the next three years conflicts with analysts average expectations of around 12% per year (Reuters 2004). My personal view is that 20% growth in EPS will not be achieved for the following reasons. Firstly, Dell is taking market share from HP's "crown jewel" printer operation by aggressive price cutting. Secondly, the only really profitable part of the M & A was the services business but margins are declining in this area. Thirdly, the small upturn in the last quarter was primarily due to the falling US dollar and continued cost cutting (MCLean 2004). Finally, the computing part of the business continues to struggle to make a profit as shown in Appendix B and this is expected to continue. Add to this a demoralised workforce actively attacking the company in some cases and it is difficult to understand how HP can produce this performance with the present leadership. Indeed scepticism of Fiorina's performance continues unabated,

*"Some commentators have wondered why Carly Fiorina hasn't received more credit for the way HP is performing but that's the problem; it's not. The company is almost stagnant when the effects of the declining dollar are taken out of revenue and cost-cutting is all very good but cannot continue for ever. Just watch those profits decline when the dollar regains ground against other currencies" (MCLean 2004).*

Therefore not only is there doubt about the legitimacy of the M & A but the very legitimacy of HP leadership is being challenged. But what impact is there on employees and contractors arising from this? The pride of being part of the original HP, shown in earlier chapters and the *Fortune* surveys is dissolving and this must be impacting individuals. This was shown in interviewee evidence as they criticised the new HP and expressed their dismay at the changes. So not only do individuals have the negative press comments about HP management to deal with they are also aware that the company they work for has changed from being one of the best 20 to not even appearing in the top 100.

So if the pride of working for HP is diminishing together with reducing benefits, reducing comparative salaries caused by salary freezes and the perceived dissipation of the HP-Way then HP's employment brand and employee engagement is also diminishing. The impact on the individual must therefore be



one of questioning whether they would want to remain with HP. There is evidence to support this in the earlier chapters and from the interview process. However the real test will be when employee expectations are reframed in an improving economy. Arising from this are clear lessons in how to manage the M & A process and continue engaging employees. The results of failing to do this are clear in the above analysis which has identified the risks for employers when they manage the process incorrectly. The question of does this matter if the company in question has a high attrition rate and is unconcerned with employee retention also arises. Perhaps the best answer to this is the consistency in values required in employment and consumer brands noted earlier require an engaged workforce. So what is the overall contribution to professional practice arising from cycle three?

Clear lessons of ensuring the legitimacy of M & As before progression have been outlined and the very legitimacy of HP's management is questioned. Weaknesses in the communication process, from the employee and contractor perspective, have been identified that should help managers design more effective communication processes in the future. Finally the continuing decline of the relational psychological contract between HP and its employees and contractors as represented by the HP-Way and resulting mercenary behaviours such as increased cynicism, declining or zero trust, declining morale and motivation are clear lessons to managers of what happens when organisational change is inadequately managed. This concludes the contribution to professional practice and this is summarised below.

### **Summary**

This chapter has identified contributions to professional practice arising from the research. Improvements from implemented changes have been presented but many of the recommendations could not be implemented and tested because of my displacement from HP. The contribution I was able to make was tested and approved externally by invitations to meetings, and presentations and as shown by e-mail responses in Appendix F. Finally, the very legitimacy of the M & A and HP leadership has been challenged and damage to HP's employment brand has been identified. Risks in the M & A process have been identified and the importance of an engaged workforce presented. We now move on to the final chapter where all the strands of this thesis are synthesised and

recommendations are made for further research to produce an additional contribution to knowledge.



## Chapter 10

### Conclusions and Recommendations

*“They bet on the fleeting over the timeless” (Burrows 2003:265).*

#### **Introduction**

This final chapter examines the conclusions reached during the research and identifies areas for further research. Some conclusions reached earlier in the thesis were tentative and further clarification will be provided here. This is followed by any gaps in the research areas as identified in the literature and from findings resulting from examining the primary data. Finally I reflect on the research process and suggest improvements that may help other researchers with their work. This chapter begins by returning to the first chapter introduction where HP was introduced as almost a paragon of virtue in the corporate world and the question was asked, “Is the truth different from the perceived reality?”

#### **The Reality of HP**

From the evidence produced HP can be described as almost a paragon of virtue in the corporate world but only in its original form. HP today appears to be just like any other company if not worse as shown by the *Fortune* survey results, data from the interviews, the destructive behaviours identified and the recent financial performance. There is also concern for HP in terms of how it can survive in the future because of self-induced and other competitive pressures from companies such as Dell or whether it will be broken up as suggested by one analyst. What is clear from the evidence is that Burrows (2003) is correct in his statement of the special bond between HP and its employees being shattered. Moreover the bond between HP and its current contractors also appears shattered from the evidence in this particular Case. It is also clear from the evidence that HP needs a relational psychological contract with its employees but its management policies appear to be trying to achieve the opposite. The original values that made HP unquestionably successful over six decades including the core constructs of engagement and reciprocity are all threatened by this new or hybrid HP that now has different values. Bill and Dave believed their original values would continue to make HP successful in the future but the loss of board representation by Hewlett and Packard family members has also probably accelerated the loss of these values. The changing HP-Way that continues to live in the minds of any remaining long serving employees will

continue to dissipate as they leave the organisation. This loss of the original relational psychological contract represented by the original HP-Way will also contribute to changing the values of HP.

Returning to the original question of whether the truth about HP is different from the perceived reality; the answer must be yes based on the foregoing which agrees with the Argyris and Schön (1978) contention of espoused theory and theory in use. In the methodology chapter a tentative conclusion was reached that the reality of HP was constructed until further evidence from the research cycles could help clarify this philosophical position. This is presented next to try to develop a definitive conclusion.

### **Constructed Reality of HP**

The ontological position where reality is constructed in the minds of individuals is apparent in interviewee responses and the wider HP. The polarisation of employee positions supporting or opposing Fiorina's strategies to change HP and the differing interviewee responses to some questions appear to confirm this. For example, the contractor responses where they feel part of the HP organisation and the HP employee reactions to contractors that suggest these employees feel contractors are not part of the organisation. This suggests differing realities when these individuals examine their relationship with the HP working environment. However many interviewee responses show similarities in perception so the difference in perceived reality may not be that extensive but is there one reality that individuals only see part of and interpret accordingly or are there multiple constructed realities? This leads back to questioning the very nature of reality as both ontological positions appear to fit the evidence. It was noted in the methodology chapter that any reality was comprised of perhaps millions of linking events that are interpreted by individuals through the lens of their perceptual frame of reference. There is also the temporal dimension where reality may become distorted by individual perceptions. The evidence suggests that reality is interpreted differently by individuals and thus I propose that reality is a construction in the minds of individuals and that constructed reality (Lincoln and Guba 1985) is therefore the only conclusion to draw in this particular Case. Now a definitive conclusion has been arrived at on which reality fits the evidence other conclusions are presented to clarify further outstanding points raised earlier in the thesis.



## **Other Conclusions**

It was mentioned earlier that Ann Livermore was considered as a potential CEO of HP but was excluded because of her HP indoctrination and the HP board perceived she lacked the qualities that Fiorina was hired for. This raises the question of whether Livermore or another HP employee may have been the better candidate for the role. Based on the evidence, and in hindsight, I would argue the answer appears to be yes for the following reasons. Firstly, her HP knowledge and understanding of the HP-Way may have prevented many of the questionable strategies implemented by Fiorina such as the M & A of Compaq, the focus on revenue instead of profit and the besmirching of HP's previously unquestioned ethical stance. Secondly, her understanding of HP employees and how they engage with HP through their psychological contracts may have prevented the destruction of morale and the disillusion that now prevails according to the evidence. Finally, it can be assumed she would have continued with the values that made HP successful over six decades and therefore should logically have continued into the future even if in a modified form.

However this returns the focus to the battle of the old and the new and the founders influence versus the supposed new realities of the business world. In my personal view as an investor, a former manager, a researcher and an individual who remains in contact with many current and former HP people, Ann Livermore, or another candidate steeped in HP values, should have been selected as the new CEO and may yet prove to be HP's saviour! However this will depend on how patient investors are with Fiorina's poor performance and whether they believe she can achieve the promised earnings growth. The concluding focus now moves to identified areas for further research.

## **Further Research**

During the writing of this thesis some authors from the literature identified areas for further research. These are collectively presented now together with any evidence of being addressed in this research. Additionally any further research arising from and advised from this research is presented. The first area where further research was recommended was noted by Guest and Conway (2002) who commented there is little research on the antecedents of contracts and the contexts in which violations are more or less likely. Further, there is little evidence of research on psychological contract violation from the employer perspective (Guest and Conway 2002). To some extent the analysis of HP has

produced evidence of the antecedents of psychological contracts dating back to the 1940s. While this has helped clarify the development of the psychological contract between HP and its employees this may be a special case as HP was viewed as distinct from other companies as shown in the evidence. Therefore the development of the psychological contract between HP and its workforce may not be generalisable to other companies because of how Bill and Dave cared for their employees, the level of engagement and reciprocity achieved and the egalitarian working environment developed.

However the context in which violations are less likely can be addressed from this research as the evidence shows that violation was less likely by both HP and its employees before the changes began in 1999 primarily because of the balanced relational psychological contract between HP and its employees represented by the HP-Way. This is demonstrated by the trust that Bill and Dave had in their employees which was reciprocated if individuals were able to accept and abide by the HP-Way. Therefore it can be concluded with some certainty that violation is less likely by employer and employee in any company with similar values to the original HP. It was mentioned in the methodology chapter that the potential link between postmodernism and changes within HP is worth exploring in the interview data in later chapters and this is concluded next.

It was noted in the methodology chapter that some congruency between modernism, postmodernism and the change from relational to transactional psychological contracts existed. In relating this to the interviewee evidence it was clear that interviewees valued security and stability more than higher remuneration and therefore more risky roles and thus desired a relational rather than a transactional psychological contract with their employer. It can be concluded therefore that the interviewees in this particular case were modernist in their approach to their working environment and that a postmodern view was not in evidence. The next area where further research was suggested is the temporal effects of violation.

Pugh et al. (2003) suggested the temporal effects of psychological contract violation warrant further study. While the results from this research are relatively recent clear outcomes from violation have been demonstrated and the success or demise of HP in the future should yield additional data. It can be safely assumed that violation of HP employees relational psychological contracts



began in late 1999 and from interviewee responses the results of this are assessed over three years. However this is probably too short a time to accurately assess the results of the temporal effects of violation compared with the decades when the relational psychological contract was developed between HP and its employees and contractors. So, any temporal effects need to be revisited at some point in the future to arrive at a definitive conclusion. The next area where further research was advised arose from cycle two where it was cynically suggested that increased training may be a mechanism to deflect employee attention from frozen salaries and declining benefits.

It is difficult to arrive at any conclusion as to the accuracy of this suggestion but if HP is losing employee engagement because of the negative workplace conditions identified earlier and companies are seeking to find new ways of motivating employees because of lean organisations and employee insecurity (Maguire 2002; Kessler and Coyle-Shapiro 1998) then there may be some credibility to this suggestion. Additional evidence such as the organisation of a car boot sale to raise morale in HP UK, from the research diary, and the former UK MD's statement of re-engaging the organisation back into HP show management have recognised a problem and are trying to be innovative to solve it. Therefore training as a motivational tool and not just a mechanism for deflecting attention from declining conditions does appear credible but future research may be able to question management motives for training. However there is evidence of employers using training as "rhetorics of normative employment" and as "employee palliatives for easing the shift from one employment system to another" (Hallier and Butts 1999:91). The next advised area for further research also arose from cycle two and this was the quality of life issue where employees were seeking security and stability in their employment.

This preference for security and stability by employees contrasting with new psychological contracts that reduce or eliminate security and stability is an interesting phenomenon as it undermines the direction of new psychological contracts as noted in Table 2. Supporting the employee preference for security and stability is the indicated reversion to relational psychological contracts (Moynagh and Worsley 2001). Therefore further research is advised as there is a distinct contradiction here that may impact HR strategies and thus issues such

as recruitment and retention. This now leads to proposing what future research should be undertaken as a result of this research.

It was stated earlier that HP may be a special case because of the values created by HP's founders therefore an examination of psychological contracts in other companies with differing values is advised. This could include a quantitative approach that was not possible with this research because of survey fatigue or using the frameworks and models resulting from this research. Alternatively the psychological contract in other companies could be tested with another framework or methodology. This may yield further evidence of the direction of the psychological contract, either relational or transactional, and how employees and contractors are engaging with differing companies. Further research in HP was advised earlier because of the temporal inequality between the duration of this research and the decades of development of HP values. This could involve other HP groups or focus at operator level within REWS which had to be excluded in this research because of time and resource. The purpose of this additional research would be to understand whether the new HP values are being internalised or continuing to be rejected and how employees and contractors are engaging with the evolving new HP.

Returning to the original research question of "how does the evolving relationship between HP and its employees and contractors impact on the individual in times of strategic change?" the question needs to be raised of have I answered this successfully or not? With the understanding that HP UK REWS is the Case perhaps the best way of answering this is to dissect the question into its components. Firstly, HP is clearly evolving as the changes identified and the cycles of strategic implementation have proved. Secondly, the relationship between HP and its employees and contractors is also clearly evolving but into a different and more negative form. Thirdly, substantial evidence has been produced of strategic changes including the three cycles of research. Finally, the "how does" part of the question has been answered throughout the thesis and in all the findings and recommendations but is there a way of summarising all the evidence? Perhaps the only way of arriving at a concise answer to this is in how HP performs as a company in the future as HP's performance is the totality of all individual impacts arising from strategic implementation and therefore HP's continued success or failure will also be a result of these collective impacts. Similarly other evolving companies would also be subject to these collective



impacts and therefore further research with other companies may generate further insights into the future of HP. Finally I reflect on the research process.

### **Reflections on the Research Process**

As outlined earlier, a central tenet of action research is reflecting on action then finding improvements for subsequent cycles of research. While I had experienced the research process when researching for my MBA, I tended to make the same mistakes in this latest research process. For example, my approach continues to be too broad as I find it extremely difficult to place boundaries on my research. My belief is that all knowledge is connected in a vast network and I tend to follow the paths of this network to an excessive degree. This results in a substantial amount of data gathered never being used in the final research product. I have also been criticised for entering “academic cul-de-sacs” but my view is, “how do you know it’s a cul-de-sac until you have explored it?” I am not saying the criticism is invalid but perhaps this is just my way of making sense of the world and is therefore a personal style or preference. I have also made many avoidable practical errors with the research process. While some of these were caused by my HP termination occurring earlier than planned I should have been more prepared for the unexpected!

All of my critical data was backed-up on floppy discs and in hard copy files but most of my background data collected over some years was stored on HP servers and tended to be mixed with my operational data. In the process of deleting some of this data I lost some files that I subsequently needed for references which wasted time in tracking down this data from other sources. Further, the assurance I had from HP’s UK IT department that they would forward any remaining data to me soon after I left turned out to be untrue as I had to wait three months for this. Therefore I recommend that researchers should always store and back-up all data on their own media. My personal filing and reference systems could also be improved as shown above and currently. Again this is personal style and preference because I enjoy the research but intensely dislike the “housekeeping” activities. However, adopting a meticulous approach would have saved a considerable amount of time.

The majority of personal criticisms relating to failures or difficulties in my research approach relate to mechanistic or operational problems. This is probably because of my previous experience and the extensive reading carried

out before the process commenced. In defence of some of these errors the whole process is a learning process and as each cycle of research progressed I refined and improved all areas where failings were identified. For example, identifying the quietest meeting rooms for interviews to minimise distractions was something I should have thought of before the process began and not during it. Further, I should have taken more of an audit type approach from the outset as shown by the data coding process change in the methodology chapter but again this is part of the learning experience. This concludes the final chapter of the thesis which is summarised below.

### **Summary**

This final concluding chapter of the thesis has finalised any tentative conclusions from earlier chapters and addressed any outstanding further research issues from the literature. Additional research recommendations have been presented where insufficient data was available or where recommendations arose from the research process itself. The conclusion that HP is losing its way continues to be apparent and the research question was presented to understand if a successful answer was produced from the research. Finally my reflections of the research process were presented to help and inform other researchers and hopefully to avoid my quantity of rework.



## **Appendix A**

### **Leaked e-mail**

HP freezes employee raises, bonuses Memowatch Unless you're upper management

By Charlie Demerjian: Tuesday 24 February 2004, 09:18

MIGHTY HP seems to be averse to giving out raises this year, bonuses too for that matter. In the following memo meant to be 'cascaded' to management teams, it basically says if you are working for HP, you are not getting a raise. The money that used to go to things like bonuses and raises is now aimed at funding pension plans and other benefits. Wasn't there another fund for that? I wonder where it went, leopard skin seats for the planes? Real silk ties for the vomit bags?

Regardless of why you, the hardworking HP employee, are getting the shaft, in the second part, it is made rather clear that upper management is NOT getting the shaft. It is worded like Carly is getting potential pay cuts, but let's see what happens when the chip hit the rotating blades. Remember, this is from a management team and board who had SO much faith in the company that they paid themselves in cash, not stock for the merger. 'Lets all pull together as a management team and assist each other....' Nope, can't go on, it is just too scary. The cliff notes version is that you are getting screwed, and your managers were just handed this letter. If they are dumb enough to believe it, they may be able to tell you with a straight face that you are not getting screwed. The dumber ones will tell you that upper management is getting equally screwed. Read on, and make up your own mind though. At least you will be armed with the 'facts' when they come for an open and honest discussion in what was once one of the top 100 places to work.

Now, I was sent these internal memos from a HP European mole who had to smuggle them out of North Korea at a high price to his team. They did get it to me, and I will bring it to you. If you have any more, please don't hesitate to pass them along, information wants to be free, you know. Last minor point. The format I was handed these things in was really ugly. I had to do some minor editing to them to fix words, strip some garbage, and make sense of

things that got mauled. In that sense, they are not the exact originals, but no more than two letters in a row were changed, and only then when it was absolutely necessary. Sorry about this, I strive for accuracy, but in this case I could not be exact. That said, here is the memo, and the linked document in it. Lotsa laffs, unless you are an HP employee.

Please cascade to your management team

From: Marcela Perez de Alonso

To: HP senior leaders

The HP leadership team has received a number of questions and concerns from employees around the world about the lack of broad-base pay increases in this years Focal Point Review (FPR). In May 2003, over 80 percent of our employees received increases, which positioned us competitively as a company in the global marketplace. Now, with the FY04 FPR designed to deliver increases on a prioritized exception basis only, we want to acknowledge the concern and anxiety that some of our employees are expressing and take this opportunity to ensure that you, the HP managers, are prepared to respond to their questions. Let's begin with some facts:

Globally, delivery of HPs Total Rewards package (base salary, variable pay, stock programs, and benefits) is aligned to our competitive market; global base salary delivery is currently above our competitive market. This is true for employees, managers and executives. For those countries where HPs base salary delivery is significantly below market, specific actions are planned to better align base salary delivery to the countrys competitive market. The majority of our \$300 million dollar increase in Total Rewards investment for FY04 is primarily targeted to maintain our world-wide benefit programs (pension program funding, medical benefit costs, etc.). Based on the company's competitive positioning, and the trade-offs that needed to be made within the Total Rewards package (including benefit costs), the FY04 FPR design and delivery will maintain HPs competitive position within the market where we compete. As leaders and managers, it is challenging both to make the tough trade-offs and to implement and communicate the decisions.



To assist you in appropriate discussions with your managers and then to employees, additional communications information is available on the portal at

<http://persweb.corp.hp.com/comp/employee/program/tr/mgmt/documents/points.doc>.

Use the information to guide your discussions on ratings, FY04 base pay decisions, FY03 executive total rewards and HPs commitment to being a best place to work. Our employees are working very hard, and spending time with them to discuss these matters is a critical part of every managers job. In our environment of open communication, its important that employees have opportunities to vent and ask questions. Lets pull together as a management team and assist each other in responding truthfully to our employees questions and concerns.

Thank you for your support and leadership.

Manager Talking Points:BR> Ratings, FY04 base pay decisions, FY03 executive total rewards and best place to work February 2004 Ratings distributions

Employee ratings are based on an individuals relative performance against peers. We use ratings definitions to differentiate individual performance, and distribution guidelines to calibrate relative performance among employees. HPs performance management philosophy differentiates performance and drives for ever-higher levels of performance in order to compete and win in the market. This requires us to keep raising the bar on our performance expectations. As such, there will always be a segment of the employee population who, when compared with performance of their peers, will have areas that warrant improvement. From a workgroup level, this may be a difficult concept to accept, but when distributions are applied at a business-wide or company-wide level, performance management allows HP to identify our highest and lowest performing employees so we can continue to make improvements and grow both as individuals and as a company.

FY04 base pay decisions

Base pay is just one component of our Total Rewards package the other components are benefits, variable pay, rewards and recognition programs, and variable pay (including sales compensation). Making the final decisions regarding our FY04 Total Rewards package required making tough trade-

offs between the total rewards components. After much consideration by HPs HR and Compensation Committee of the Board of Directors and review by the Executive Committee, it was that the majority of our \$300 million dollar increase in Total Rewards investment for FY04 is primarily targeted to maintain our world-wide benefit programs (pension program funding, medical benefit costs, etc.) HPs competitive position is reviewed annually globally and in each region. During the FY03 Focal Point Review, 80 percent of employees received a base pay adjustment, resulting in an average 4.1 percent increase to payroll. Most of those employees who received an increase in FY03 had not received a base pay adjustment in 12-18 months (depending on pre-merger company). This year, there is very little movement in the global, high-tech and general industry markets in base pay investments, but this varies by country. In some countries, broad base salary increases will occur to maintain general alignment with the local market. In the U.S., the base salaries are generally at the market. So, this year salary increases will be applied to a limited set of prioritized exceptions. This set of trade-offs and decisions may not be satisfying to employees who aren't among those to receive an increase, but it's appropriate from a company-wide view and aligned with market practices. FY03 Executive total rewards Consistent with other employees, executive pay is based on salary survey comparisons with peer companies. Based on competitive data provided by independent consultants as part of the FY03 Focal Point Review, the HR Committee of the Board last year determined whether a salary adjustment was appropriate and made adjustments to the mix of Carly's and other key executives FY03 Total Rewards package to be more in line with market and organizational considerations. The board increased Carly's pay last year from \$1M to \$1.4M, her first increase in base pay since joining the company in July 1999. In addition, the board decreased her bonus opportunity from 400% of base pay at target to 300% of base pay at target. These FY03 adjustments were in line with competitive market practices for executive total rewards, and they were made at a time when 80 percent of HP employees also received a pay adjustment. A large percentage of the total executive pay is "at risk" and based on performance goals set by the HP's Board of Directors. HP's position as a best place to work We know from our employees that we still have work to do to make HP a Best place to work. We've gone through the largest technology merger in history, with the associated changes and workforce reductions, and this has had a huge



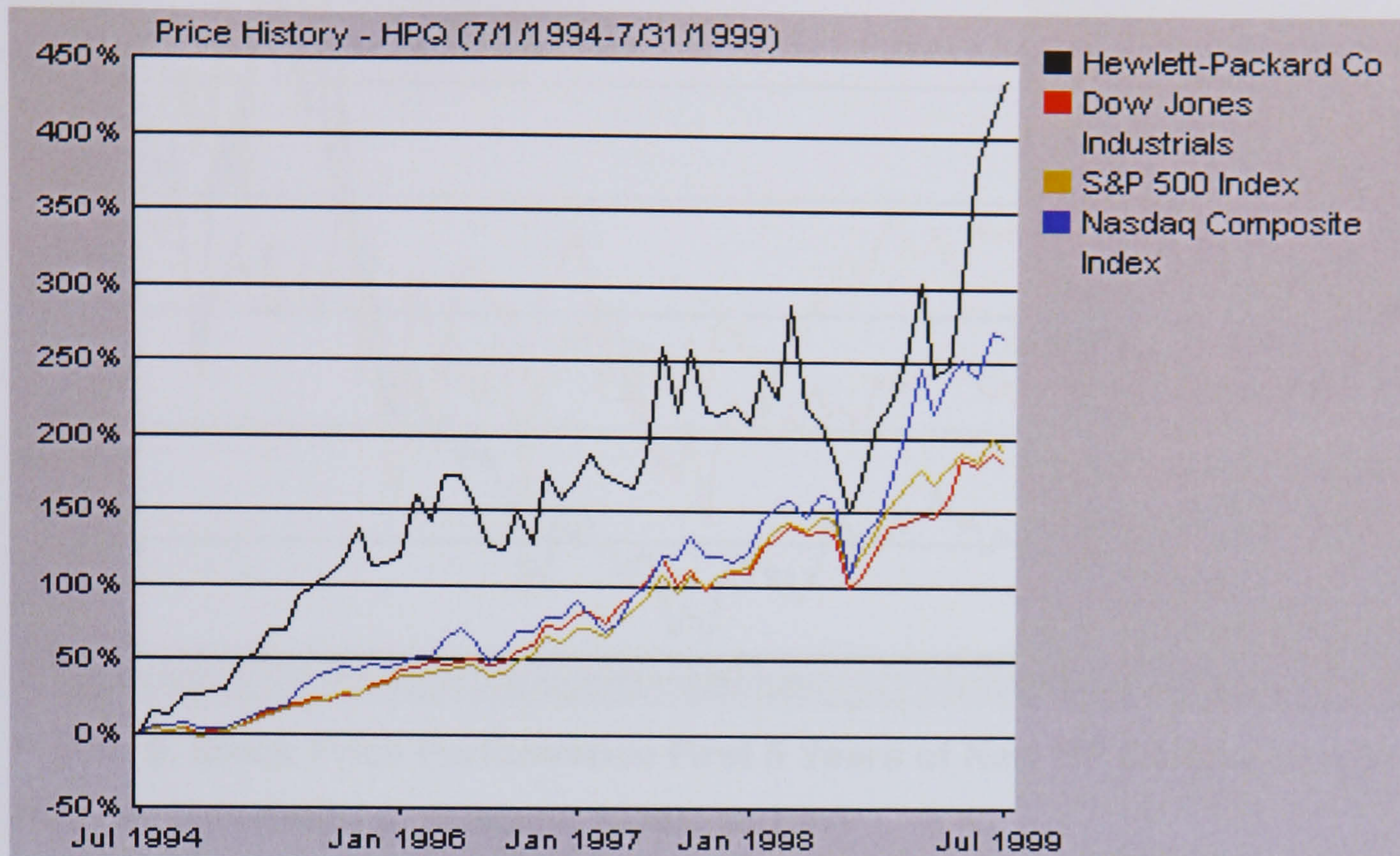
impact on our people, our culture and our work environment. In the last two years we have made significant progress, but we've not where we want to be yet -we want to focus on the areas of greatest importance and demonstrate sustained improvements. Most of all, we want our employees to see these improvements as ones that have a positive impact to them. The Fortune survey polled a small sampling of employees in the U.S. only. Nevertheless, we take the results very seriously and are integrating the concerns raised into our Voice of the Workforce (VoW) efforts. By and large, the Fortune findings were consistent with last year's VoW. Throughout the company, from the EC down to individual teams, we are working to address issues around productivity, engaging employees, and developing leaders at all levels of HP -the priorities our employees highlighted to us. For example, the VoW results emphasized our need to improve processes and tools to better enable people to do their roles and to balance our time and workload. As Carly has stated, building a Best place to work continues to be a priority to all senior leaders. We acknowledge that total rewards and performance management is part of this, which is why we do aggressively benchmark HP against other global companies, both inside and outside the technology industry. In order to continue to attract and retain the very best in the industry, we must be competitive with compensation at all levels of the company, including our top executives and members of our Board of Directors.

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## Appendix B

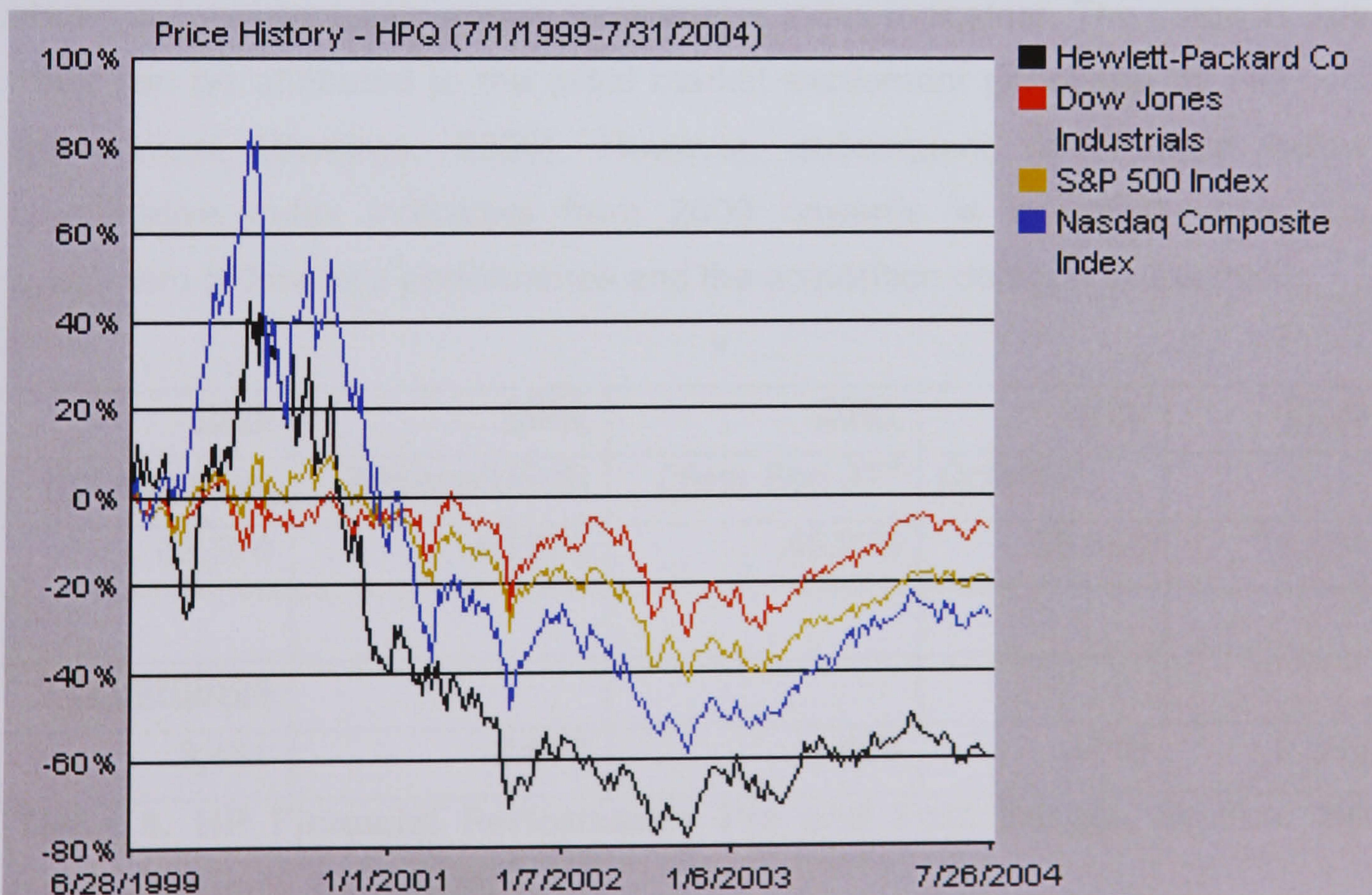
### HP Financial Performance



**Figure 7. Stock Price Performance Last 5 Years of Traditional HP**

(Source: CNBC Money)

<http://moneycentral.msn.com/investor/charts/chartdl.asp?Symbol=HPQ>

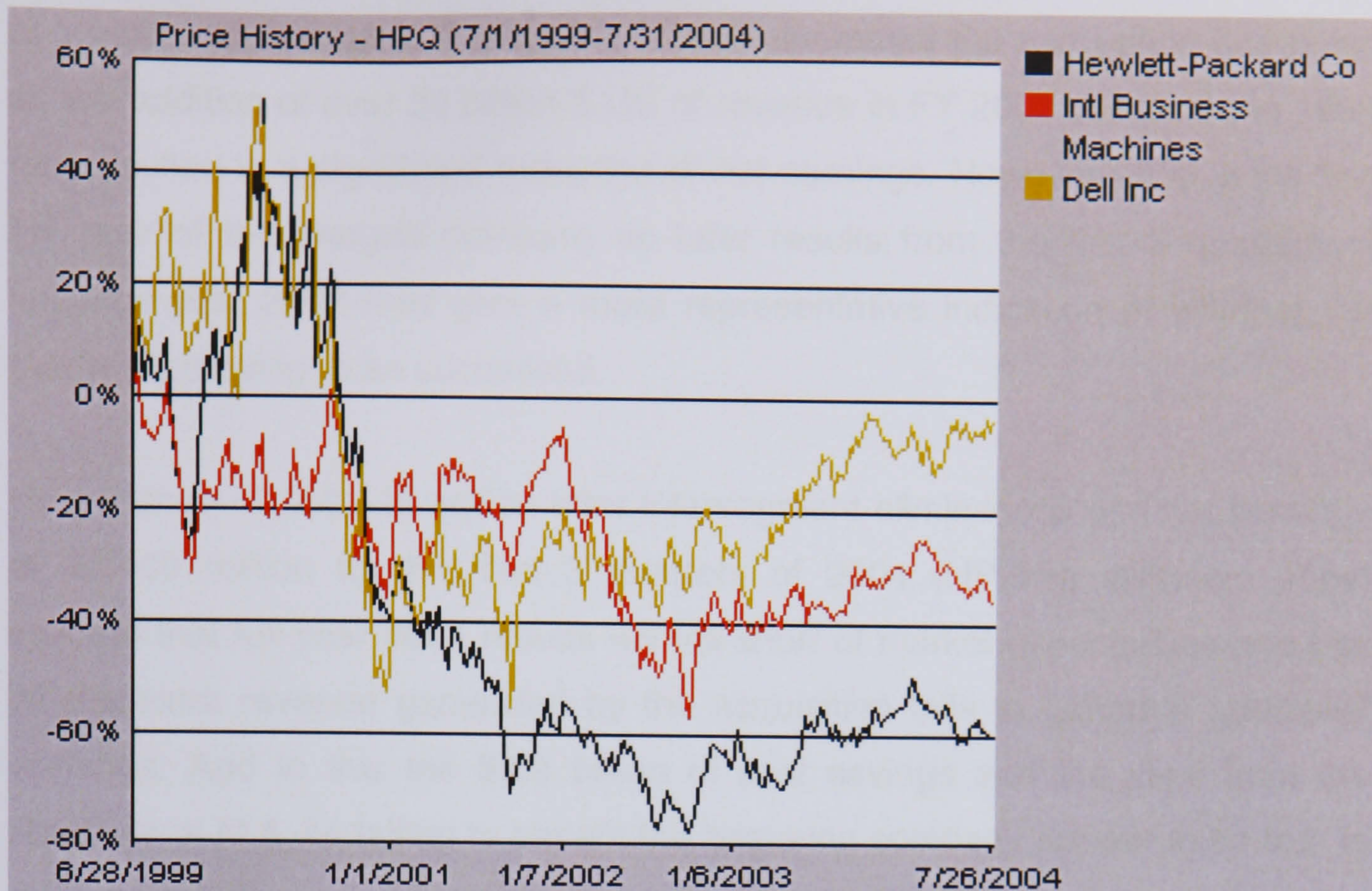


**Figure 8. Stock Price Performance First 5 Years of New HP**

(Source: CNBC Money)

<http://moneycentral.msn.com/investor/charts/chartdl.asp?Symbol=HPQ>





**Figure 9. Stock Price Performance First 5 Years of New HP Compared with Primary Competitors. (Source: CNBC Money)**

<http://moneycentral.msn.com/investor/charts/chartdl.asp?Symbol=HPQ>

**Comments on Stock Price Performance**

The HP stock price performance for the 5 years prior to Fiorina’s appointment shows a consistent gain above comparative index indicators. The surge in July 1999 can be attributed to the initial market excitement generated by Fiorina’s appointment (Burrows, 2003). However, subsequent performance below comparative index indicators from 2000 onwards is indicative of market scepticism of Fiorina’s performance and the acquisition decision in late 2001.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b><u>Net Revenue</u></b>	(Millions US \$)	(Year End 31 <sup>st</sup>	October)		
	42,370	48,870	45,226	56,588	73,061
<b><u>Net Earnings</u></b>					
	3,491	3,697	408	(903)	2,593

**Table 8. HP Financial Performance Pre and Post Merger, Source: HP Annual Reports 1999-2003.**

Revenue for Financial Year (FY) 2002 includes a part year of Compaq revenue. FY 2002 also shows the first loss in HP’s history directly attributable to the



acquisition of Compaq. This table of results indicates the acquisition has failed as the addition of over 30 billion \$ US of revenue in FY 2003 compared to 1999 has resulted in a significant reduction of net earnings. However 2003 is the first full year of the merged company so later results from the first 3 quarters of financial year 2004 may give a more representative indication of whether the merger is proving to be successful.

Net revenue of \$58,516 million after intersegment eliminations and net earnings of \$2,406 million for the first 3 quarters of 2004 (HP.com investors page) indicate that full year 2004 results will fall short of market expectations and that all the extra revenue generated by the acquisition fails to generate additional earnings. Add to this the \$3.9 billion of cost savings and the view from the literature of M & As failing to benefit the acquiring company appear to be true in this case. The poor performance of HP's stock price also appears to be a fair reflection of the poor performance of HP. However not all of HP's businesses are failing and the "crown jewel" printer operation continues to generate most of the net earnings as shown below in Table 9.

	<b>Revenue First 3 quarters 2004 \$ million US</b>	<b>Operational Earnings First 3 Quarters 2004 \$ million US</b>
<b>Technology Solutions Group</b>	<b>21,812</b>	<b>822</b>
<b>Imaging &amp; Printing Group</b>	<b>17,656</b>	<b>2,758</b>
<b>Personal Systems Group</b>	<b>18,082</b>	<b>132</b>
<b>Financing</b>	<b>1,398</b>	<b>106</b>
<b>Corporate Investments</b>	<b>330</b>	<b>(135)</b>
<b>Totals</b>	<b>59,278</b>	<b>3,683</b>

**Table 9. HP Revenue and Operational Earnings First 3 Quarters of FY 2004.**

**Source: hp.com**

Net earnings of \$2,406 million, quoted earlier, differs from the total operational earnings of \$3,683 million shown above because of various deductions such as restructuring charges and goodwill amortisation. However the true position is much worse than the numbers above appear to indicate. On the assumption that most of the extraordinary deductions relate to the technology and personal



systems groups, because this was effectively what HP acquired from Compaq, then both these groups are effectively operating at a net loss. Also considering the \$19.7 billion of goodwill on the balance sheet primarily caused by the M & A then the Compaq acquisition can only be described as an abject failure from the financial perspective at this time.

**Appendix C**  
**Selection of Interview Process e-mail Responses**

Sent: 23 May 2002 14:36

To: BRANT,DENNIS (HP-Unitedkingdom,ex1)

Subject: RE: Research Interview (Confidential)

Dennis

I can't believe we got through all this in one hour! Your transcript looks accurate to me although, as you say, it's strange to see conversation written down.

Name

-----Original Message-----

From: BRANT,DENNIS (HP-Unitedkingdom,ex1)

Sent: 17 May 2002 11:16

To: NAME,NAME (HP-Unitedkingdom,ex1)

Subject: Research Interview (Confidential)

Hello Name

Please see the attached transcript. It can be a bit of a shock sometimes for people seeing their conversation produced in this format but don't worry, everybody is roughly the same and we all use terms like "sort of" or "you know" as thinking pauses. I have eliminated any "ums and ers" as this makes the next stage of my analysis easier but I will comment that comparatively your language and responses were very precise. Please have a look at the transcript and let me know if you think it's accurate and what your general feelings/feedback is.

Thank you again for helping me with my research.

Dennis



From: BRANT,DENNIS (HP-Unitedkingdom,ex1)

Sent: 28 March 2002 12:43

To: NAME,NAME (Non-HP-UnitedKingdom,ex1)

Subject: RE: Research Interview (confidential)

Hello Name

As I've mentioned before, I'm really pleased when volunteers feel they have benefited from these exercises. You were certainly more concise and relaxed which is probably indicative of skill refinement in this area.

Thank you again for your contribution and rest assured you will remain first on my list for subsequent research!

Cheers

Dennis

-----Original Message-----

From: NAME,NAME (Non-HP-UnitedKingdom,ex1)

Sent: 27 March 2002 13:39

To: BRANT,DENNIS (HP-Unitedkingdom,ex1)

Subject: RE: Research Interview (confidential)

Dear Dennis,

I have read through your transcript. I don't envy you having to produce it!!

I enjoyed reading through the transcript as well as the actual interview itself.

I felt more relaxed the second time around.

I am far more conscious of what I am saying now!!

I have no further comments/additions to my answers during the interview - I felt my original answers were comprehensive and reasonably clear!

Cheers, Name

-----Original Message-----

From: BRANT,DENNIS (HP-Unitedkingdom,ex1)

Sent: 25 March 2002 13:20

To: NAME,NAME (Non-HP-UnitedKingdom,ex1)

Subject: Research Interview (confidential)

Hello Name

Please see attached interview transcript. I would be grateful for any comments/feelings/perceptions of this. I have eliminated the um's and ah's during compilation.

Thank you for helping me with my research.

Cheers

Dennis

From: BRANT,DENNIS (HP-Unitedkingdom,ex1)

Sent: 06 January 2003 15:36

To: NAME,NAME (HP-UnitedKingdom,ex1)

Subject: RE: Research Interview, Private & Confidential

Hello Name

That was quick! Thanks for your kind thoughts and yes, there's still a lot of work to do.

Cheers

Dennis



-----Original Message-----

From: NAME,NAME (HP-UnitedKingdom,ex1)

Sent: Monday, January 06, 2003 3:30 PM

To: BRANT,DENNIS (HP-Unitedkingdom,ex1)

Subject: RE: Research Interview, Private & Confidential

Dennis,

I don't have any problems with your transcript. Good luck with all the hard work still to come. I wish you every success.

Regards

Name Name

-----Original Message-----

From: BRANT,DENNIS (HP-Unitedkingdom,ex1)

Sent: 06 January 2003 14:15

To: NAME,NAME (HP-UnitedKingdom,ex1)

Subject: Research Interview, Private & Confidential

Hello Name

Here is the transcript from the interview. Thank you again for agreeing to participate and, as with the previous interview, you were very clear and lucid in your responses. Please have a look through when you get time and let me know if you think it's accurate. I have underlined some words that I think could compromise your anonymity and these would obviously be changed if I used them. Please also let me know your initial response after reading this.

Thanks again

Dennis



**Appendix D**  
**Internal Customer e-mail**

**From:** BRANT, DENNIS /HP-UnitedKingdom,om14  
**Sent:** 07 October 1999 16:04  
**To:** Internal Customers (names withheld)  
**Cc:** Internal Customer Managers (names withheld)  
**Subject:** Support Services Logistics – Favourable Residual

Dear Customer

I am delighted to announce that SSL will be crediting a small refund to your account. This result is according to SSL's strategic plan and was achieved in a turbulent trading environment. The net effect is to reduce your logistics costs further from an extremely competitive cost base, (our market intelligence suggests we are already undercutting competitors on like for like business by up to 33%).

Further service benefits and improvements include,

- Low Carrier cost increases despite substantial tax increases.
- Frequent audits resulting in process optimisation.
- Substantial functionality improvement in web systems.
- Continually rebalancing charges to achieve commercial alignment.
- Continuing improvements in Health & Safety practice.
- Increasing customer base resulting in economies of scale.
- Improved compensation package, (above Industry Standard).
- Improved security including CCTV, cages and access monitoring.

Our plan for FY2000 is to further freeze charges (some having been frozen for 3 years) with the exception of the following,

1. The trend in product weight reduction continues necessitating the introduction of a minimum 2 kilo threshold hub rate resulting in a minimum handling charge of 39 pence per unit.
2. Increasing investment in the reconciliation and redirection of improperly addressed items will be funded by introduction of a £25 reconciliation



fee. While SSL and (Contract Company) are continuing to work with customers to improve this process volumes are increasing.

3. Some uncertainty impacting cost caused by the IPO has already led to substantial projected cost increases. While SSL may absorb some of these costs a direct charge based on these increases may need to be levied. SSL will advise customers when this is quantified.

SSL and (Contract Company) look forward to working more closely with both our Agilent and HP customers during the next year.

Thank you for doing business with SSL.

Kind regards

Dennis 31-54293



**Appendix E**  
**Institute of Logistics Article**

**OUTSOURCED, PARTNERED or IN-HOUSE LOGISTICS?**

Submitted for publication to Logistics & Transport Focus (Institute of Logistics and Transport) as a requirement for the Doctorate of Business Administration (Bournemouth University Business School). Published, in June 2001 Vol.3, No. 5, pp. 41-44.

Selecting the right business model for logistics services within Corporations continues to be a difficult decision. Press reports of dissatisfaction with service providers are commonplace and impact decision processes of business managers. This article seeks to clarify some of the difficulties and explain differences between an outsourcing and partnership approach with logistics service providers.

Outsourcing is a centuries old business practice in the “make or buy” decision process and was promoted more recently as a fashionable reaction to the 90’s recession. Faced with severe cost constraints, Companies viewed outsourcing as the easy, short term, solution particularly in structures where costs were driven by head count. This “knee jerk” reaction caused numerous fractures in customer, supplier and employee relationships and ultimately led to backsourcing or continuous service provider selection when failures became apparent. So what is the optimal business model for providing logistics services?

Firstly it is important to define and understand what key factors differentiate Outsourcing and Partnering, see Table 1.



<u>OUTSOURCING</u>	DIMENSION	<u>PARTNERING</u>
<b>Hierarchical</b>	<b>Relationship</b>	<b>Equivalence</b>
<b>Blame Culture</b>	<b>Quality</b>	<b>Problem Solving Culture</b>
<b>Constrained/filtered</b>	<b>Communication</b>	<b>Less Constrained</b>
<b>Rigid</b>	<b>Contract</b>	<b>Flexible</b>
<b>Internal/company</b>	<b>Focus</b>	<b>Customer</b>
<b>High Intensity Policing</b>	<b>Control</b>	<b>Self or Low Intensity Policing</b>
<b>Alienated</b>	<b>Employees</b>	<b>Motivated</b>

**Table 1.**

While all of the dimensions identified in table 1 are inextricably linked differences in the two approaches should be viewed as extreme positions on a continuum with a true position somewhere between. For example elements of a blame and a problem solving culture can exist simultaneously within one contract.

### **Relationship**

With outsourcing an assumption is made that the service provider has less status than the host company and is treated accordingly. This discriminatory approach leads to polarisation of attitudes and is particularly noticeable when service providers are implanted within host company buildings. Attitudes to contract workers and “temps” result in these people displaying a minimal self with consequent motivational and productivity impacts. Conversely with a partnership approach the aim is to create an inclusive environment where contract employees feel valued and appropriately rewarded. Research indicates this will not prevent comparison of host and service provider terms and conditions by individuals but it helps reduce tensions caused by the “them and us” attitudes in a host/outsourcing contract. Equally important is the relationship between the host and service provider management structure. A strong working relationship between host and service provider managers is critical in achieving a partnership approach in the early stages of implementation.



## **Quality**

Process quality and mitigation of human error is constantly tested in supply chains. In an outsourcing environment a “blame culture” tends to develop where the host company blames the service provider for any error and seeks recompense both for failure and consequential loss or expense. Inevitably, a blame culture will permeate and affect service provider’s employees who may use various subterfuges to try and conceal problems of loss or damage. Further, any discrepancy in shipping documentation or host company processes will be exploited to mitigate the service provider’s liability. Process quality becomes a secondary issue when the host company and service providers both invest resource in trying to apportion blame. With a partnership approach the emphasis changes to joint liability where both parties review processes and causes of human error and agree process improvements and compensation contribution. Service provider employees are able to participate in correcting processes without fear of punitive action. The no blame culture ensures problems are solved proactively thus avoiding supply chain disruption and complaints from customers.

## **Communication**

Outsourcing tends to force communication through specific points of contact such as the contract managers. Communication also tends to be autocratic or bureaucratic and activities such as customer complaint investigation follow convoluted processes resulting in further customer disillusion. Severe operating problems also result in delays in urgent shipments or unexpected losses. The more open approach resulting from partnering enhances problem solving and is valuable for relationship marketing in the service providers business. Communication is more informal and not constrained by hierarchical levels. Help-desks and web sites, with regularly updated contact lists managed by the service providers’ organisation, allows customers to contact appropriate employees directly to resolve problems but a customer focus environment must be introduced to benefit from this approach.

## **Contract**

A general rule of outsourcing is when host and service provider begin quoting contract clauses the outsourcing initiative is failing. Accepting that a robust, relevant and flexible contract is essential, from a legal and commercial perspective, subsequent interpretation or use of the contract indicates the



communication process is failing and links with the blame culture identified earlier. Typical problems include contract “scope creep” where the service provider is expected to execute additional services not fully identified in the contract or unexpected revenue falls from discontinued services. The difference with the partnership approach is the acceptance by the host company that the service provider is legitimately entitled to make a fair and justified profit according to performance for the overall service. Similarly there is an acceptance by the service provider that not all activities will be profitable but overall the fair profit principle prevails.

### **Focus**

Outsourcing typically focuses service provider organisations on inward looking activities such as surviving from day to day, liability and negative issues identified in other dimensions. Host companies focus on core competencies and eliminating activities perceived as outside their definition. Politics and bureaucracy compound the problem resulting in customer service degradation. The partnership approach focuses the service provider and host on the customer either by institutionalising an entrepreneurial culture or by top-down employee education. Quality of communication is vital to ensure employees understand their own personal contribution to customer satisfaction.

### **Control**

A common error in outsourcing is the expectation by host companies that contract employees are of a similar calibre and motivation level as their own employees. This tends to cause serious problems soon after contract implementation as policing is viewed as secondary. Typically this causes an over-reaction by the host company and consequent substantial resource investment in audit activity together with polarised and conflicting attitudes within both host and service provider companies. Further, motivation levels and security are also impacted towards the end of a contract period. The partnership approach with joint problem solving and liability tends to be self-policing as risk is identified by both parties before contract implementation.



## **Employees**

Contract employees within a cost focused outsourcing contract become alienated because of cost pressures leading to under resourcing and trying to cope with a mistake intolerant environment. Attrition rates tend to be high causing a training gap which leads to lower productivity and higher error rates. Low motivation will impact on customers by display of poor attitudes and minimal personal investment. This is exacerbated further if the contract is implanted within a host company building. A partnership is effectively the exact opposite of the identified characteristics outlined above. While the initial investment may be higher, error rates tend to be significantly lower leading to more cost effective operations overall. An additional benefit is the capability of processing higher level logistics activities permitted by a fully trained and stable workforce.

## **Dimension Summary**

While many of the above examples appear extreme they are based on operational experience from a variety of sources. The benefits of a partnership approach are clearly outlined in all the above dimensions and while the initial investment may be higher significant savings in lower error rates should be realised.

## **Business Model**

So what is the best model for providing logistics services? Research has indicated that partnering or outsourcing in a “like for like” environment is more expensive in the medium to long term inclusive of accruing for potential severance and the salary & benefits package of host company individuals. Logically, when a service provider quotes for a logistics contract, they will have evaluated their potential severance risk together with uplift for internal funding and profit. Therefore, if the service provider cannot add any value to a given process then retaining the activity in-house is more cost effective. The difficulty is in evaluating if added value can be realised. In some cases this decision is easy, for example, in deciding to appoint overnight parcel carriers for mass consumer distribution. Similarly any activity where established networks or infrastructure is not available in-house and could be provided by partners more effectively would be an obvious business decision. However, where activities such as integration, consolidation or other higher level logistics activities are



compared then retaining in-house expertise would be more cost-effective unless the proposed service provider paid employees substantially less or host company operations were inefficient.

### **Fashionable Approaches**

Increasing pressure within corporations to outsource, particularly where activities are perceived as non-core, are influencing companies' decisions. This fashionable approach is acknowledged to actually raise costs for some activities and tends to eliminate the very expertise required to control it. Longer serving host company managers understand the cyclic characteristics of constantly adopting "new business models" and are generally resigned to the re-learning process and substantial reinvestment that follows.

### **In Conclusion**

Selecting the right logistics model is fraught with difficulty and is achieved within business environments influenced by pressures to conform to latest fashionable approaches. Companies should always be aware that rebuilding infrastructure and skill sets is measured in years rather than months if the outsourcing/partnering decision is proved wrong. Companies should seek to retain a core level of expertise and infrastructure within their organisation in order to prepare for selection of new service providers, outsourcing failure or changes in the business environment.

### **About The Author**

Dennis Brant MILT is UK Business Logistics Manager with Hewlett-Packard Limited Workplace Solutions. He has an Oxford Brookes MBA and is currently reading for a Doctorate of Business Administration with Bournemouth University Business School.

Further information [dennis\\_brant@hp.com](mailto:dennis_brant@hp.com)



**Appendix F**  
**Selection of Responses to Focus Article**

-----Original Message-----

From: Name Name [mailto:name@hotmail.com]

Sent: 16 July 2001 11:19

To: dennis\_brant@hp.com

Subject: Your article in June Focus

Dear Mr Brant,

I read with interest your views on Partnering vs straightforward Outsourcing, in relation to logistics services. I wholeheartedly agree with your views, which are particularly refreshing coming from your position in a company more likely to be outsoucer rather than outsourcee.

Your article has added a dimension that I did not really consider, other than the concept that the provider should be treated as a real member of the planning an implementation team at the earliest possible stage of the process. As it happens we have had some clients for many years, (Company) for over 30 years, for example. I realise that one of the reasons is the "partnering" approach that has evolved rather than having been created from the beginning.

I look forward to hearing from you - and indeed reading more of your views in Focus in the future.

Kind regards

Name Name

Sales Director



-----Original Message-----

From: name.name@company.co.uk

Sent: 13 June 2001 20:36

To: dennis\_brant@hp.com

Subject: Article

Dennis

I read with interest your article in Logistics Focus "Outsourced, Partnered or In-House Logistics" As a business (Company) are about to embark on a project to re-design the logistics network, this process may eventually lead to increased use of Third party providers.

I am currently researching Industry best practice in Logistics outsourcing, particularly regarding relationships and ownership.

I would be very interested to talk to you around your views and experiences. Perhaps you would let me know if you would agree to this

Name Name

Company

Services Controller

-----Original Message-----

From: Name Name [mailto:name@un.org]

Sent: 18 June 2001 08:47

To: Dennis\_brant

Subject: Article in Volume 3 Number 5 - Focus.

Dear Mr. Brant,

I have just read (with considerable interest) and highlighted some of the statements in your article on the subject "Outsource, Partnered or In-House." At the moment I am working with the UN Mission in Kosovo (UNMIK) Title. As the title suggests, I have responsibilities for a series of contracts that relate to the supply of products.



I strongly endorse your views on the need to cultivate 'partnerships.'

I allude to the product contract because, as you would guess, in the UN system (dealing with Public money) the lowest (perceived) compliant bidder almost always gets the contract. The consequence is that one ends up working with a firm that initially (at least) proves not really to be up to doing the job. However, once the supplier is appointed, there is no going back. I was the first to be guilty of assuming that the contractor is of a 'similar calibre.'

With particular respect to the concept of cultivating a partnership, I fully endorse your views. Even more so, when the supplier turns out to be less than satisfactory. One has one of two options; either terminate the contract or, recognise the imperfections of the supplier and go all out to improve supplier's performance, by working hard at resolution of the ensuing problems, in partnership.

I am glad to say, although time consuming and hard work, the 'cultivation of a partnership' is beginning to work. Currently the UN contracted product supplier is building a product station here in Pristina that will resolve many of the problems encountered during the last 12 months.

One final point, I have great difficulty in getting the product supplier to communicate bad news. Despite repeatedly making it clear that if one knows about a problem, one can often assist to resolve it, the supplier tends to put its head in the sands and hope the problem will go away. By the time one identifies this is happening, problem resolution becomes more complicated.

With kindest regards,

Name Name



-----Original Message-----

From: Name Name

Sent: 10 July 2001 22:14

To: dennis\_brant@hp.com

Subject: Outsourcing Logistics:Transport performance indicators

Dear Mr. Brant,

I found your article in "Focus", June 2001, stimulating and intriguing.

My company, (Company) is involved in an outsourcing logistics and transport negotiation process. The intent is to operate within a partnership arrangement.

In the light of your article I would greatly appreciate any thoughts you might have on transport performance indicators, an area which we are finding rather "sticky."

Many thanks,  
Name Name.

-----Original Message-----

From: Name Name

Sent: 23 September 2001 16:54

To: dennis\_brant@hp.com

Subject: Your Paper in FOCUS June 2001

Dear Mr. Brant,

It was indeed very interesting to read your article - Outsourced, Partnered or In-house Logistics in the June 2001 issue of FOCUS. A large corporation has currently retaining me as a Consultant for their Logistics Matters and your article was a good reading.

Look forward for your more such papers

With regards

Name Name

M.Sc., M.B.A



-----Original Message-----

From: GILSTRAP,GORDON (HP-FtCollins,ex1)

Sent: 02 August 2001 13:00

To: BRANT,DENNIS (HP-Unitedkingdom,ex1)

Subject: RE: Scottish Logistics Conference

Hi Dennis,

Good to hear from you. I also look forward to being able to travel again one day. Conversing only through e-mail and telephone has a definite deficit. In regard to the article, I think it is quite good. There are two points you might consider.

If the hosting company assumes that the contract company employees are less capable or motivated, the relationship is in serious jeopardy from the start. Through several years of outsourcing experience, it is my opinion that employee capabilities and motivation are more driven by the job the person does than by their company affiliation. An entry level dock worker or assembly line worker will typically be less skilled and motivated than a logistics analyst. Since it is typical to outsource the most tactical jobs, the phenomenon becomes more apparent. The difference is that the hosting company may have invested more in people in these job levels to increase skills and motivation. The goal then must be for the hosting company to ensure that the contracted company makes similar investments in their people. I have witnessed operations where I felt the employees in the contracted company were far more motivated than the HP employees that did the same work. The difference was the attitude of the contracted company regarding their employees.

In the make/buy decision, another factor to consider is internal managerial support and funding. Using HP as an example, there are some operations that are better outsourced even if the cost is higher. The reason is that within HP, you must have management bandwidth consumed by fighting for budget, ensuring headcount, having support in hiring and training, etc. On the other hand, the outsourced operation becomes one line item on a budget. The time consumed across multiple functions and levels of HP management with hiring, targeting, training, disciplining, evaluating and investing for an in-house operation is seldom costed to its full extent.



Feel free to use (or discard) these thoughts as your article certainly falls within the overall thinking of HP on outsourcing.

Cheers,  
Gordon



**Appendix G**  
**Employee Merger Feedback Form**

Please return completed surveys to name\_name@hp.com. All surveys and participants will be held in confidence and remain anonymous. The objective of this organizational pulse is to get a sense of where employee sentiment is regarding the merger. The combined results will be shared with the worldwide communications council and members of the executive staff. Thank you for participating.

1) How would you describe your level of support for the merger?

Very supportive  
Somewhat supportive  
Not supportive at all <<<<

2) How would you describe your level of belief that the merger will position HP well for the future?

High  
Medium  
Low <<<<

3) What issues related to the merger are foremost in your mind today?

HP is buying a pup, the price is too high.  
The markets are opposed to the deal, never cross the markets.  
The founding families are opposed to the deal.  
It appears to be an act of desperation rather than a measured approach.  
There is minimal evidence of employee cultural compatibility on a deal of this size.  
The markets and employees have little confidence in the leadership of HP.  
More companies die from indigestion than starvation, (Dave Packard).



4) Which information source has the greatest effect on your opinion of the merger?

External media coverage <<<<

Internal messages from executives and on hpNOW

Opinions shared informally by colleagues/friends/family

In-person communications from your manager

6) Please identify:

Your business unit: WPS

Your geography: EMEA

Are you a manager or individual contributor? Manager.



## Appendix H


### Presentation to Scottish Logistics Conference, (slide examples)

These three slide examples show a contribution to professional practice as they were presented to a professional logistics audience at the Scottish Logistics Conference during 2001. They were produced from the research conducted and published in the conference information packs. The three slides summarise the benefits of a partnership approach in the outsourcing process.


### HP LOGISTICS UK

#### CHANGES IN CONTRACTOR RELATIONSHIP


<u>FY1997</u>	<u>FY2001</u>
<b>Host/Contractor</b>	<b>Partnership</b>
<b>Working to Contract</b>	<b>Business Development</b>
<b>Minimal Self</b>	<b>Promoting the Business</b>
<b>Restricted Communication</b>	<b>Open Communication</b>
<b>Restricted Customer Access</b>	<b>Account Management</b>
<b>Customer Aversion</b>	<b>Customer Attraction</b>
<b>Restricted Roles</b>	<b>Moving up the Value Chain</b>




dennis\_brant@hp.com  
invent



HP LOGISTICS UK PARTNERING	HP LOGISTICS UK OUTSOURCING
Cost & service focused	Cost focused
Win/win	Win/lose
Contract neutral	Contractual attitudes
Low level policing	High level policing
Shared problem solving culture	Blame culture



dennis\_brant@hp.com  
invent





## Glossary

AR	Action Research
AT & T	American Telephone and Telegraph Corporation
CEO	Chief Executive Officer
BL	Business Logistics
BOD	Board of Directors
DEC	Digital Equipment Company
EBM	Entrepreneurial Business Model
EC	Executive Council
EMEA	Europe, Middle-East and Africa
FTO	Flexible Time Options/Off
FY	Financial Year
GIGO	Garbage in Garbage out
HP	Hewlett Packard Company
HPC	Hewlett Packard Consulting
HR(M)	Human Resource (Management)
IBM	International Business Machines
IT	Information Technology
ISO	International Standards Organisation
MBA	Master of Business Administration
MBO	Management by Objectives
MBWA	Management by Walking Around
MD	Managing Director
M & A	Merger and Acquisition
PC	Psychological Contract
PwC	PriceWaterhouseCoopers International Limited
REWS	Real Estate and Workplace Services
SBU	Strategic Business Unit
SEC	Securities and Exchange Commission
SSL	Support Services Logistics
TQC	Total Quality Control
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 1981
UK	United Kingdom
VoW	Voice of the Workforce
WPS	Workplace Solutions



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