

BUSINESS: H-P Lost Faith in Fiorina, but Not in Merger

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SO, WAS Carly right after all?

I mean Carleton S. Fiorina, of course -- the first businesswoman to achieve one-name fame, like Madonna, Oprah and Hillary. Ms. Fiorina was unceremoniously dumped as chief executive officer of Hewlett-Packard last year. At the time, the popular critique was that she forced the legendary technology company into an ill-advised merger with Compaq Computer.

Business-school professors clucked that Ms. Fiorina had steered H-P into a strategic backwater, lost between the low-cost producer -- Dell -- and the high-quality-and-service producer -- International Business Machines. Her predecessor, the late Lewis Platt, used a blackjack metaphor, saying that by expanding in the troubled personal-computer business she had "doubled down on 16." Just days before Ms. Fiorina's firing, Fortune ran a cover story titled, "Why Carly's Big Bet is Failing." For days after Ms. Fiorina's departure, the company's stock rose, largely on expectations the new CEO would break it up.

Mark Hurd, the man chosen to succeed Ms. Fiorina, didn't undo the merger. He didn't defend it either. When asked whether it was a good idea, he refused to give an opinion. "It's over," he said. "My job is to make Hewlett-Packard the best company we can make it in the future."

LATELY, SENTIMENT has begun to turn. H-P's fortunes are rising, while Dell's are falling. The direct-sales model that helped Dell drive costs into the basement -- the company sells its computers mainly through catalogues and online -- seems to be running out of gas, while the H-P "channel" strategy -- selling through retail stores -- is proving better at penetrating the fast-growing laptop and overseas markets.

At a meeting of H-P's board not long ago, Chief Financial Officer Robert Wayman did a retrospective look at the merger. The results were so compelling that even some board members were stunned, some attendees say.

At the time of the merger in 2001, the company set three broad goals: to strengthen its market position, to improve its competitiveness and to increase shareholder value.

H-P was in third place in the personal-computer market in 2001 and posting losses. Today, it is a strong second, breathing down Dell's neck for the lead and posting profits -- though still not as much as it would like. In the industry standard computer-server business, H-P was then in fourth place and bleeding red. Today it is No. 1 and nicely profitable.

On competitiveness, the company's total operating expenses came to 21.5% of revenue back in 2001. Today, that is down to about 16% -- and all but one percentage point of the decline happened before Mark Hurd's cost-cutting campaign took hold.

As for shareholder value -- well, at the time Ms. Fiorina left office, there was little to boast about. But recently, H-P has surpassed all of its rivals. Total return to shareholders since the merger has been almost 50%. Dell has been almost flat in the same period, while IBM shareholders have lost substantial sums of money.

WHO DESERVES credit? Mr. Hurd gets kudos all around. Still, even he is quick to say that in H-P's PC business, "there has been a prolonged sustained march in performance that, frankly, predates me."

The truth is that H-P's board members never completely lost faith in the merger -- after all, many of them had been a party to it. They just lost faith in Carly. She created a matrix-management structure they couldn't understand and

muddled lines of reporting that made it difficult to hold anyone responsible. She concentrated too much power in her own office, and then took to the road making speeches and wasn't there when decisions needed to be made. Perhaps most importantly, she was disdainful of the board's efforts to change her ways.

It is difficult to find anyone involved with H-P today -- board member, shareholder, employee, customer, analyst -- who isn't happy that Ms. Fiorina is gone and that Mr. Hurd has taken her place. He is everything she wasn't. He dives deep into operations, is in love with the metrics and out of love with the media. He disdains vision; he is all about execution.

Carly's version of her ouster has yet to be told. She has a book coming out in October that her publisher promises will be "brutally honest about her triumphs and failures." Somewhere in there, she undoubtedly will give voice to her feeling that the H-P board overstepped its bounds in pushing her out and that H-P's current success is a vindication of her strategy.

On the second point, at least, she may be right. H-P's directors went through hell together. In the end, they got the best of both worlds -- a charismatic CEO who brought about a hotly contested but transformational merger, and a no-nonsense, operations-oriented CEO determined to make the combined company work.
