

COMMENTARY: THE WEEKEND INTERVIEW

The Un-Carly

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In a company haunted by ghosts, Hewlett-Packard may have found its savior in a man who doesn't have much fear of them.



It's a Friday afternoon in Silicon Valley and the hallways of the company's corporate headquarters in Palo Alto, Calif., are nearly deserted. If the long week of shareholder and board meetings hasn't sent H-Pers home early, the spectacular warm weather, blue skies and fruit tree blossoms have.

I wait under a mural of Bill Hewlett and Dave Packard for a secretary to take me up to the executive offices. After she arrives we walk down the long main hallway and I point out accent lights illuminating a bare wall. For more than a decade that was where a rotating art exhibition was hung.

What happened to it?

Ismael Roldan

The secretary shrugs at the questions and answers, "Carly," with no elaboration. Accurate or not, it is the standard employee shorthand for H-P's recent and unhappy past.

Those are the ghosts that hover around Mark Hurd. On the one side there are Bill and Dave, the patron saints of Silicon Valley, two of the greatest and most enlightened business executives in history -- and among the most successful. On the other is Carly Fiorina, Mr. Hurd's immediate predecessor, the superstar CEO who latched onto the H-P legacy while trying to escape the legendary "H-P Way" -- and went down in flames after company employees, alumni and, ultimately, H-P directors turned on her.

When Mr. Hurd was hired two years after a successful tenure as chief executive at NCR Corporation -- where he tripled the value of that company's stock -- his arrival was met both with relief (at last, a return to normalcy at H-P!) and dismay (what's an outsider doing taking over the most "family" of tech companies, in the most insular of business communities?).

But almost from the first day, Mr. Hurd proved sure-footed -- in large part because of his pragmatic, unsentimental personality. He also immediately hit the road to hear from thousands of H-Pers. He abandoned many of Ms. Fiorina's radical organizational schemes and went back to a simple reporting structure based on product families. He returned H-P to what he calls the basic "blocking and tackling" of getting products out on time, improving quality and service, and increasing profit margins.

But perhaps the most important thing Mark Hurd did was to just shut up and work. Like a family that had just suffered through a painful crisis, H-P needed peace and quiet, time to heal its wounds and focus on business.

It was the right decision. Though the company's stock took a long time to reflect the change, H-P in the months that followed seemed to find itself again. The famous company culture, though still a shrunken version of its former self, proved resilient enough to weather one more big lay-off six months after Mr. Hurd's arrival, and then, last summer, the spying scandal that included accusations of snooping on a reporter for this newspaper that engulfed H-P's board of directors, in particular Chairman Patricia Dunn.

Meanwhile, as the world slowly began to notice, Hewlett-Packard's business was on fire. Thanks to new government regulations such as Sarbanes-Oxley, and the resulting shortage of new company IPOs, this has been one of those rare tech booms driven by large corporations, not entrepreneurs. And H-P has so far proven to be the big winner. Even as once-invincible competitors, such as Dell, and partners, such as Microsoft and Intel, stumbled, Hewlett-Packard under Mr. Hurd seemed to pick up speed. Only in the last few months has the magnitude of this turnaround become apparent. H-P is once again a media darling. But Mark Hurd remains characteristically tight-lipped.

We met in H-P's board room, where Dave and Bill presided in their final years with the company. But if there were ghosts in the room, they quickly faded as Mr. Hurd strode in on the balls of his feet, shook my hand ("Hey, how are you?"), flung open the outside doors to let in the warm breeze and plopped down into a chair ("Boy, it's been a long week").

Fortune 50 CEOs seem to come in two forms: patricians and tough guys. Mark Hurd is the latter. He speaks with a flat Midwestern voice, with little artifice or embroidery, his sentences littered with business buzzwords -- infrastructure and leverage are two of his favorites -- and technical terms. His words are measured, especially with a journalist, and he often stops halfway through a sentence and starts a new one that better serves his message. Yet, despite this self-control, Mark Hurd also bristles with nervous energy and often straightens his tie or unbuttons and rebuttons his suit jacket a dozen times in as many minutes, like someone who'd rather be doing anything but sitting in a chair and talking.

If he's tired on this day, Mr. Hurd is also happy. He's coming off one of the best few weeks of his professional career. At the end of February, H-P announced that not only were its quarterly profits up 26% from the year before, but that company revenues were on track to perhaps touch \$100 billion -- a pinnacle never before reached by a technology company. Equally impressive, H-P's solid growth came from strong sales nearly across the board. From PCs (notebook sales were up 40%) to enterprise computing to printers, H-P products have been hot.

And with this strong performance came other good news. H-P shareholders recently defeated efforts to impose a new system for nominating members of the board of directors. The board has also voted to buy back \$8 billion of company shares, which would not only offset employee stock options but also reward shareholders. And the day before we met, a Superior Court judge in San Jose dismissed all charges against ex-Chairman Dunn.

I ask Mr. Hurd if H-P feels vindicated over the Dunn ruling, or just relieved?

His voice drops almost to a whisper, "I think that regardless of what the legal decisions are, no one felt good about this. We had leaks coming from our board. Those were clearly unacceptable, and they needed to be dealt with. At the same time, it doesn't excuse the fact that we had a sloppy investigation. Whether legal or not, we have a higher standard than 'legal' -- so regardless what happened this week, we're going to get this right." Then he adds, "We're going to be a company people can be proud of in the future."

This last aside captures a change in Mark Hurd regarding Hewlett-Packard and its culture. Two years ago, when asked about the H-P Way, he was polite, but also seemed skeptical. That's changed. These days when Mr. Hurd talks about H-P, it's now "we," and he has become very decisive about what is best for the company and his 156,000 fellow employees.

For example, when asked why, after the great quarterly revenues announcement, H-P didn't also trumpet the fact that it has passed IBM as the largest information company in the world, perhaps in history, Mr. Hurd replies, "I don't think it's H-P style to go out and talk about that. Our history is to talk about technology. What we do for customers. The revenues are just the result. So we consciously decided that wasn't something that needed to be brought up."

Shades of Hewlett-Packard, circa 1975. Mr. Hurd's remark is so characteristic of the two founders that one can only assume that he has lost some of his early doubts about the H-P Way. Does he think he understands it now?

He answers with a visible awe, "I've been here for two years, and gotten the chance to talk to tens of thousands of employees and ex-HPers . . . and . . . I think I'm beginning to. I've read [Packard's book] 'The HP Way' a number of times, and I've come to realize that a fallacy developed that when we have issues at H-P they somehow shouldn't be confronted. But that's just ridiculous; it's a misreading of the past. When things were an issue at [the old] H-P, they got fixed. The crucial difference from most other companies was the way they got fixed. And that's what we're trying to do again today.

"It's the little things that matter. For example, we recently redid our pension plan -- and we got a big financial gain out of it. A lot of money. Well, we turned right around and gave it back to the employees in an early retirement program. I'm not saying another company wouldn't do that, but it is certainly something that H-P would do.

"But it's hard to explain it much more than that. I've come to think of the H-P Way as you would any family and how it works together, how it behaves. It's not always the easiest thing to describe, but if you're part of that family you just know."

And when he doesn't know, Mr. Hurd at least knows where to look: in that giant repository of corporate institutional memory called the HP Alumni Association, now more than 20,000 strong. Unlike his predecessor, Mr. Hurd has assiduously courted the HP Alumni: "I think they're our biggest fan club, and we want them to be our biggest fan club. They'll do almost anything to help us. So we work with them to make sure they're up-to-date on our products and we open

employee purchase activities to them." Earlier the week we met, Mr. Hurd had addressed the local alumni chapter -- and returned to his office to find 150 emails full of suggestions.

H-P now has a Web portal for alums, enabling them to see company broadcasts. "This group is a huge asset for us. They have become our brand ambassadors. And we want to bring them even closer to the company."

If all of this talk about the H-P family suggests soft-heartedness, one needs only to bring up financial matters and the tough guy CEO reappears. Bring up Wall Street's concern about H-P's slipping profit margins and Mr. Hurd reiterates his recent public pronouncement that H-P's cost structure is too high -- and proceeds to explain how he intends to reduce it. "My view is that revenues minus operating profit equals cost. And by that definition we have a lot of cost. The level of integration of the company [thanks to acquisitions] needs work; our processes need work. Things as simple as our information technology infrastructure need work. Sometimes that even means we have to invest more money now to save more later."

As for the suggestion that H-P has been living too much on mature products and industries, instead of its traditional strategy of competing on innovation, Mr. Hurd argues that this is a misreading of the company's efforts. He notes that H-P is one of the last big companies actually doing basic research -- "The R, not just the D, in R&D" -- and that HP Labs' important contributions in everything from Web applications to green technology are either largely hidden or just now coming to the surface. Mr. Hurd points to H-P's new MediaSmart HDTV, which can receive entertainment directly from a PC, as a glimpse of where the company is headed: "to integrate content across the home, whether it's emanating from the Web, from satellites, from cable, or the PC, and bring that to the consumer's touch."

He catches himself, "I've probably just told you more than I should have," and rephrases: "We are a technology company at our core, and we will stay that way."

All of this hard work turning around a beloved, but troubled, corporate giant, Mr. Hurd admits, hasn't given him much time to socialize in Silicon Valley. Does he ever feel like a stranger in a strange company and an even stranger town?

No, insists Mr. Hurd. "I can remember the afternoon I left Dayton [Ohio] like it was yesterday. I landed here at 10 p.m., and from the minute I got here, I felt great. I can't really explain it to you, and it sounds kind of corny, but while H-P is a Silicon Valley company, it has lots of Midwestern roots and values. And it's such a friendly place. I felt at home the minute I got here.

"As for Silicon Valley, what has been difficult to get used to is the fact that your partners and competitors are right next door. And the same time there's this interesting collegiality, even among competitors, that supports the whole system of the Valley. And that's really been different for me -- but pretty cool to be part of."

Mr. Hurd chuckles, "Also, this is a great place to be if you're a tennis player. I played in college. And this place is loaded with old washed-up tennis players just like me."

And the ghosts? Mark Hurd may not be afraid of them, but that doesn't mean he ignores them. "Dave Packard once said that talking with successful people is a great way to learn about what it takes to be successful -- but not to bank on them helping you be successful in the future. He was right. We can't live in the past. At Hewlett-Packard, we want to be on the news channel, not the History Channel."

Mr. Malone is author of "Bill & Dave: How Hewlett and Packard Built the World's Greatest Company," published this month by Portfolio.