

# International Growth And Human Resource Management Challenges: A Review Of Hewlett-Packard's Efforts To Maintain The HP Way

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## ABSTRACT

*This case is about Hewlett-Packard, its culture, and the problems the company encountered as it made a journey from a domestic firm to an international organization. The case discusses how the culture was created, developed, and perhaps lost during the company battle to stay in the top of the computer, test and measurement instrument markets. This case discusses the national and international challenges that HP has to deal with and the changes the company has to make in order to save "the HP way."*

## INTRODUCTION TO HEWLETT-PACKARD

*H*ewlett-Packard<sup>1</sup> (HP) incorporated in 1939 under the ownership of Bill Hewlett and Dave Packard. By 1979 the company had 52,000 employees and more than 4000 products, as reported by Beer and Rogers (1995, p. 2). Since the beginning, the company had a different, but concrete culture for managing its employees. Dave's idea was that if they could simply get everyone to agree on the firm's objectives and understand what the company's business was; its employees, and eventually, the company, would move in the right direction.

HP was structured as a decentralized organization, where general managers were authorized to make decisions for their product segments. The firm's business policies allowed for self-structuring mechanisms within the firm; and financially, leverage was almost non-existent as evidenced by its minimum long-term debt.

Management by wandering around (MBWA) and management by objectives (MBO) were unique elements of HP's corporate culture. Beer and Rogers mentioned that these two elements consisted of tactics in which managers would spend part of the day walking and talking with subordinates and with other departments in order to improve communication; and establishing long and short-term objectives that were communicated to all employees (1995, pp. 6-7). Employees had employment security and stability; and the company was proud of its hiring and employee retention policies. According to Beer and Rogers, the HP employees had an average satisfaction index that was 25% above the national norm in 1979 (1995, p. 21). However, by the 1980's Hewlett-Packard's business units and organization had severely changed. Rapid innovation in information technology; new companies being created; and the decline of profits, caused the firm's stock price to crumble. In order to react, the company was obligated to downsize and redeploy some of its workers to other units. Downsizing created a larger workload for the remaining workers and the relocated workers felt alienated. These actions led to disbelief of employees in the HP Way and caused their morale to decrease.

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In 1989, pressured by competitors, HP was forced to acquire another company. HP's creators felt that integrating the culture of the new firm would weaken the internal structure of Hewlett-Packard; eventually eroding the HP Way. New policies in the company also caused regional managers to lose their independence; as they no longer had direct influence on their business units.

## **THE CHALLENGES OF GROWTH**

*How can one believe in the HP Way when people are losing their jobs?* It is important to remember that, regardless of industry and organization, most employees will tend to appreciate the company's desire to avoid layoffs. So, in the case of HP, this could indicate that employees agreed that change is inevitable in order for the company to have a spot in the market. So the corporation should develop a different management approach that focuses on the merits of the program for organizational change. The new approach must emphasize the corporate objectives regarding people, values and mission. The company should also stress the HP security policy such as compensation packages, retirement plan, stock options, and relocation opportunities. Employees should understand that downsizing and redeployment were two better options than layoff. It could also be an opportunity for employees to change careers. In addition, a psychological support and a mentoring program would also be a good way to ensure employees still believe in the HP way.

*Why don't practices apply equally across the company anymore?* HP divided its operations between its computer hardware business and its smaller office products division. Beer and Rogers (1995) suggest that as HP expanded into the computer segment, resulting in acquisitions, consolidation and outsourcing, this created a feeling of detachment and fragmentation in employees (p. 14-15). The company had no prior experience in dealing with growing a company, so as it grew larger, the only way they saw fit was to acquire and expand. This was further complicated by the fact that HP had no solid, general plan for growth. Substantiating this claim is the evidence that HP only acquired and partnered with other firms only to gain technical knowledge and not to integrate its organizational culture within the new firms. This resulted in the company not expanding HP practices across the board to their new partners (Beer and Rogers, p. 14). These issues would not have been so much of a problem if HP had experience in these procedures or had sought the use of consultants. That way, the transition process would have been easier and would have allowed the HP Way to still be used by the firm in light of the new changes.

The firm's new decentralized structure also conflicted with the HP Way. The company did not factor in the firm's mission, objective or vision statements into how the company was expanding and operating. Each of HP's business segments also operated more independent from each other. The personal computer, printer, measurement, tests, and international divisions did not share any common services; each had different customers and target groups; their management structures were different; technology was implemented differently in each segment; and each segment also had its own set of distribution channels, all of which further led to lower coordination within the company and increased fragmentation across units (Beer and Rogers, p. 16, 23). Efforts to bring centralization to HP for some reason reinforced its decentralized methods. The new bureaucracy that was created increased difficulty in decision making and other work processes which helped to bring down HP employees' spirits. All of these actions further led to decreased coordination in the company's work practices.

Another reason why practices at HP did not apply across the board can be attributed to how foreign operations were managed. Foreign managers were converted to only being liaisons between the U.S. and their subsidiaries. If these managers would have been used to coordinate business in their respective countries with headquarters, they could actually serve the purpose of employing the HP Way with minor modifications for cultural work practices in each foreign location. There was also no effort made to ensure the HP Way values were effectively communicated to the foreign branches. All of these actions and auxiliary actions that took place led to the decreased application of HP practices throughout the firm, both domestically and internationally.

*Can the HP Way survive in today's intensely competitive environment?* Yes. The HP Way can survive in today's intensely competitive environment. The key to maintaining the HP Way and values like it are to create values that can be modified when changes in the firm's internal or external environment occur. The problem most companies face when trying to hold on to their core values is that the values are sometimes too rigid. Rigid values and processes

make it hard for a firm to adapt to environmental changes and to effectively implement new processes into the firm. If a firm instead has values that provide a good foundation and culture on how to operate without specific guidelines, the values can then be adjusted to incorporate new changes within and outside the firm; which allows smooth transitions and minimal disruptions for employees.

### **CHALLENGES, OPPORTUNITIES AND ALTERNATIVES**

The main problem with HP is that it has lost its touch with employees. As a result, employee morale has decreased; which can be attributed to numerous factors. With new expansions and some consolidations, HP does not know how to retain a sense of purpose and familiarity; as had been done in previous years when the company was smaller. The company needs a way to reconcile decentralized management structures and reporting systems with an informal corporate culture that still operates and is managed effectively under some form of central control. Is it feasible to re-employ the HP way or is it better to leave things the way they are?

The problem HP is faced with presents a large opportunity for the company to turn around its practices. The opportunity is present to rework the management structure; boost employee esteem, return a sense of pride to HP, and more importantly, link all of the business units together to decrease un-coordination while still retaining autonomy on some levels. The HP Way values should be redefined to take into consideration the new changes the company has recently undergone. HP has the opportunity to adapt the HP Way to a new mindset of organizational thinking. There is also an opportunity to transplant the HP Way into foreign markets; which can be done with some minor modifications.

In order to be successful in the global market, HP has to find a way to adapt its culture to the international scenario. The core values of the HP way (integrity, respect for individuals, innovation, and contribution to customer and the community) can still be applied even after the company's restructuring. The HP Way can and will be reinstated into the corporate environment. Employees need the HP Way, although a few structural changes have occurred, HP can once again become a familiar and tight-knit firm. However, HP is too big to have a decentralized structure in most of the areas in today's economy. A new structure has to be developed and the HP tradition, in terms of structure, would have to be broken down and built up in some areas in order to accomplish its strategies.

To alleviate the problems of decreased coordination between some product segments that use some of the same functions, it is necessary that key components of these operations be centralized (Beer & Rogers, 1995, p. 16). Further coordination of the HP Way in the foreign subsidiaries also needs to be implemented so that practices can be standard across the board.

### **IMPLEMENTATION PLANS: REDEFINING THE HP WAY**

*Boost employee morale.* Figure 1 provides a pictorial view of redefining and reinstating the HP Way. The main step in getting HP back on track with workers, is to regain the trust, satisfaction and morale of its employees. However, what employees must understand is that when a business expands, the sense of closeness and familiarity will erode to a certain extent. On the other hand, the firm itself needs to realize that the key to keeping a business afloat internally is to always integrate its core concepts, values and beliefs into any venture the company will embark upon.

As had previously occurred in the past few decades, HP had at once instituted a formal training program for all employees on the values and practices of the firm. This was necessary to enlighten all workers on how processes work at the company. In order to get back the employees' sense of familiarity, it is necessary to continue or reinstate this program with some minor modifications. The five values of the HP Way are: 1) trust and respect individuals; 2) continually focus on achievement and good contributions; 3) conduct HP business with integrity at all times; 4) strive to use teamwork when achieving company objectives; and 5) use flexibility and innovation in all processes at the firm (Beer & Rogers, 1995, p. 20). The five main organizational values of the HP Way need to be effectively conveyed to employees when they are hired. These values should also be used as a starting point for work processes and serve as a general guideline for how business is conducted within the HP framework. It is not necessary to implement each value using a defined set of criteria. This training should focus on the overall nature of the values instead of how the culture

specifically operates so as not to seem too rigid or too controlling for the employees. By providing this type of training, the values can be modified and adapted to future changes and situations at HP. This ensures the HP Way will be continued with any new endeavors of alteration the firm will encounter.

*Teamwork.* It will also be wise to bring back some level of teamwork into the organization. The re-introduction of the HP Way can lead to reapplication of some of the values and practices that were favored in the past. According to Beer and Rogers, the biggest issue within the company was employees feeling that the concept of teamwork had been abandoned by the firm (1995, p. 17). It is still possible, even with the expanded Hewlett-Packard that teamwork can occur on some levels. Teamwork should not necessarily mean consensus when making even the most minor decision; but should mean that employees within a department or division should work together to accomplish their tasks in line with the goals of the company and their unit. Decisions for major issues can be made autonomously at the product unit level, but can involve team decisions that are contributed to by employees at the divisional, group and department levels.

*Divisional reviews.* The process of divisional reviews will be improved to better evaluate each of the firm's business units. Beer and Rogers (1995) state that employees felt very strongly about this issue and thought that the old process of conducting these reviews was sufficient (p. 8). To revamp this process, the divisional reviews should be conducted separately and not lumped together with other units. This would ensure that each division receives an accurate and thorough assessment so any changes that need to be made will benefit each division to the fullest. When using the current method of evaluating the group, it is hard to tell how effective each division of that group is and how beneficial or disadvantageous a division is being to the group. To alleviate this, division reviews can still be conducted jointly at the group level to gauge the effectiveness of the group; however, separate divisional reviews still need to take place at each divisional level to accurately gauge the performance of each unit. This evaluation should then be compared to the evaluation that is done at the group level in order to see how the divisions are affecting the group as a whole; which allows for more beneficial recommendations to be made.

*Time use.* To alleviate the feeling of 'being pushed for time' that is inherent within HP, a new way of thinking needs to be implemented in the office environment. This could be as simple as letting employees know 'whenever you finish, its done' or it can be as complicated as actually changing deadlines or altering work schedules. The biggest reason cited for the time crunch was fewer workers are available to do more work (Beer and Rogers, 1995, p. 17). At the corporate level, there may not be much that can be done to alleviate the time-crunch except to incur the cost of hiring more workers and providing time management skills. This may be an effective plan because it has been proven many times that low morale and stress leads to decreased productivity in the firm. The cost of hiring and training new workers may well be covered by the benefits of happier employees; more productivity and a lighter air in the work environment. At the other spectrum, at the lower group, divisional and departmental levels, employees, both superiors and subordinates should come up with some solutions that work for them to decrease the hurried nature in the office. The new ethic should be, 'it is okay to take a break', or, 'there is nothing wrong with slowing down every once in a while to get back on track'. If employees feel they have enough time to do projects, they will be less stressed and productivity should increase.

*Compensation.* There is the option of offering more to employees in terms of compensation measures. The first step is to emphasize the employment security policy that is in effect at HP. The current policy at HP is to use downsizing and redeployment in order to avoid layoffs and the negative aspects that come along with letting people go. To make the policy more attractive, the severance packages should be increased to include better benefits in terms of monetary value.

## **TRANSFERRING THE HP WAY ABROAD**

The HP way can indeed be transferred to work in other cultures. As mentioned earlier, the HP process of teaching new hires the HP Way can be done on a superficial level instead of being a specific list of rules and processes to follow. By not making the HP Way so detail oriented, the main idea of each value is being conveyed; which allows for the values to be implemented in ways that are customary to the various cultures of the foreign countries. The values should stand as a general guideline or ethic for working at HP to ensure that foreign work processes can be

adapted into the HP subsidiaries while maintaining the HP Way. HP's expansion into East Asia presented the largest problem for implementing the HP Way. The training given to employees in Hewlett-Packard's domestic operations will be extended to its East Asian operations as well. This is to ensure effective communication and understanding of the values of the company in order to guarantee that modification of these values can be made. Of the five HP Way organizational values, the one that stands out most to Asian cultures is the value of using teamwork to achieve company objectives. Although, this is not to say the other four values cannot be used—they can, with adaptation. The fact that most Asian cultures are collectivist cultures should be considered in instituting the value of teamwork into Asian subsidiaries. Expatriate managers from the U.S. and Europe who have individualistic values can modify the approach to working at HP by emphasizing the value of teamwork to Hewlett-Packard. Since there have already been problems with instituting the value of trust and respect for individuals, managers should continuously emphasize the importance of high individual performance within the 'team'. The idea should be conveyed that the team will perform better if each individual contributes according to his/her maximum potential. This way, the collectivist nature of Asia's social and business culture is being reached through teamwork and the HP value of individual contribution is stressed, indirectly, to the Asian workers. The bureaucratic style preferred by Korean and other Asian firms should not be that much of a problem. Since the Asian subsidiaries have operated for a long time, and they are more than likely staffed by host-country nationals who have proved their talent, it is okay to let them institute their own culturally sensitive management structure that is in line with the values of the HP Way. This is also a way to better build the 'trust' value of the HP Way Asia. When a foreign subsidiary is staffed with local nationals and expatriate managers, building trust requires working through the personal level to develop relationships with the nationals. HP could implement these changes with the foreign branches. In order to effectively build trust through relationships, it is imperative that the expatriate managers get cross-cultural training in Asian culture.

*Centralization.* Three of HP's product segments, the test and measurement segment; the computer systems segment; and the measurement systems segments all rely on the internal functions of measurement, computation and in depth communication to research, develop and sell their respective products. Since these segments perform each of these functions separately, greater coordination, control and maybe cost-effectiveness can be achieved by integrating the three functions together under one unit that each segment can access. Sharing and better coordination should lead to efficiency and productivity.

### **Human Resource Updates and Analysis**

Since Beer and Roger's (1995) original case "Human Resources at Hewlett-Packard" the firm has undergone quite a few changes to both its organizational structure and the HP Way. Practices within the firm, according to both insiders and outsiders, have slowly shifted away from the HP Way although; in some aspects the core values of the HP Way still stand. Most of HP's recent actions in regards to operations and human resources are completely opposite of what many perceive to be the HP Way.

Some people feel the decline in the HP Way was brought on by the leaving of founders; while others feel it was the direct result of the new proxy, Carly Fiorina's decision to acquire Compaq (Gillmor, 2005; Poletti, 2001). Although, mergers, acquisitions, layoffs, and reduced compensation benefits and centralized structures were not originally part of the HP Way, the company had to find a way to survive in the ultra-competitive computer industry. According to Dale Kasler (2005), "in an industry where product life cycles are measured in months, not years, it's believed that HP has to react to changing conditions more quickly" (p. 1). HP, however, has implemented the HP Way in modified versions that are still based on some of its old pillars across its operating centers.

The declining use of decentralization was also an issue with HP during the late 1990's. Many workers felt this was extremely opposite of what the HP Way was supposed to be. Decentralization at Hewlett-Packard was thought to "increase accountability and entrepreneurship" (Beer & Rogers, 1995, p. 19). More decisions were made to organize the firm to allow for better coordination among business units; which, as a result, called for the centralization of some functions. The first functions to be centralized were accounting and financial services for the Americas divisions. HP created a new financial services division at Colorado Springs known as the Colorado Springs Financial Services Center (CSFSC). This allowed the company to take accounting, transaction process, and other financial services away from individual business units such as test and measurements, chemical, etc., and combine them into

one single area. The main issue with the CSFSC was that the very purpose it had, centralized operations of all transaction processing and accounting functions of HP, were contrary to some of the key values of the HP Way—decentralized, individual operating units and local autonomy within departments. The new center took away the independence of various departments and business units for their transaction processing and centralized these functions for the entire company (Shockley-Zalabak & Buffington Burmester, 2001, p. 40).

Further autonomy and decentralization was realized throughout HP and was evident in its three product groups that were decentralized from the elimination of the Customer Solutions Group. The technology solutions group; imaging and printing group; and the personal systems group were all given more control of their business in respect to their “operational and financial decision making” (HP Divisions Change, 2005). Now HP had to deal with modifying and adapting the HP Way to the new CSFSC. Executives and consultants in Colorado Springs found this could be done through teamwork. This concept falls in line with the HP Way as one of the organizational values is teamwork, which was the focus of the modified HP Way at Colorado Springs. The teams were known as self-directed, virtual teams and were ‘networked’ throughout the entire company. A networked team as described by Shockley-Zalabak and Buffington Burmester (2001) is the term for “an organization form with elements of the virtual organization, self-directed work teams, unique relationships with partners, and state-of-the-art processes and technologies” (p. 9). This networking of the teams occurs through linkages with partners; through the use of technology, and through processes that facilitate information sharing and helps to accomplish the goals of the organization.

As part of the HP Way, the use of the teams afforded the workers some form of autonomy in that they were responsible for all decisions that were derived as a result of their work; they did their own interviewing of prospective employees; handled meetings and measured performance (Shockley-Zalabak & Buffington Burmester, 2001, p. 63, 83). Managers, or team facilitators, as they are known, are suggested to merely ‘guide’ the teams to a solution for a customer instead of being told what to do which engenders both responsibility and creativity—a critical aspect of the HP Way. In fact, teamwork implemented at the CSFSC also allowed for a small portion of decentralization and responsibility as groups were made accountable for their decisions and outcomes on their projects instead of working from a top-down management approach. Performance rewards were adapted for the center as well. Instead of individual rankings, new pay incentives and rewards were based on team performance reviews of the individual employee (Shockley-Zalabak & Buffington Burmester, 2001, pp. 59-63).

Although workers wanted the HP Way to remain a mainstay in the firm, the company still was not able to reinstate all of its old practices such as the retiree health-care program, the employee pension plan and layoffs. For example, the company planned to layoff about 14,500 employees between 2005 and 2007 (Kasler, 2005). Compensation under the HP Way was also affected as the company expanded. For example, voluntary pay cuts became more common as the firm asked employees to exercise various options for reduced compensation (The HP Way, 2001). Other benefits afforded offered to workers were altered as well such as the pension plan for current employees were abolished and converted to 401k plans (Kasler, 2005). Profit sharing by current employees was scrapped in favor of newly created performance bonuses (Poletti, 2001). Since 1992 HP has incurred other problems related to its corporate culture, mainly with its merger with Compaq and Agilent Technologies; a headstrong new CEO, and other practices that were abandoned by the firm.

Hewlett Packard essentially became two organizations in 1999 when it bought Agilent Technologies and created two separate companies. Agilent took over the original business units of: 1) Test and Measurement; 2) Healthcare; 3) Chemical Analysis; 4) Semi-conductor business. The original HP, which in fact became the new HP focused only on three areas: 1) computers; 2) printers; 3) scanners (Shockley-Zalabak & Buffington Burmester, 2001, p. 169). HP decided to centralize its accounting and transaction processing services into a single unit to improve upon customer service and solution making. Local management for each location and business unit controlled all of the transaction and financial processing for their individual units which led to replication with about 46 ledgers. After the consolidation and creation of the CSFSC at both Atlanta and Colorado Springs, the numbers of ledgers were reduced to 36 (pp. 16-17). HP went on to further consolidate its Financial Services Divisions and created the World Wide Financial Services Division to oversee the Americas Financial Services Division, Asia Financial Services Division, and Europe Financial Services Division. The CSFSC was taken over by Agilent Technologies, who took over HP’s

old business processes of test and measurement, healthcare, chemical analysis, and the semi-conductor group. The functions of the CSFSC were then integrated with the Atlanta office and the facility became the headquarters for Agilent's operations including financial processing (p. 169). Also HP's acquisition of Agilent Technologies led to some problems as well with the creation of the Financial Services Center in Colorado Springs. HP's new CEO who oversaw the merger with Compaq, Carly Fiorina, was revered by some and despised by others, mainly for her alleged abandonment of the HP Way. Some thought that Fiorina felt the HP Way was obsolete for the twenty-first century and that it only held the company back from moving ahead in the industry (Gillmor, 2005).

In 2002 Hewlett Packard underwent another merger to join forces with Compaq to further expand and solidify its market position in the computers segment. To help merge the two companies' cultures, seminars were put in place to facilitate the employees of each of the firms to get to know each other better for better performance in the office. In order to facilitate this, these workshops called "Fast Start" were initiated to get the employees of Compaq and HP a chance to work together to learn each other's personality types, work habits, worksites, etc. In these sessions, workers also planned and developed business goals for certain incremental time periods. These sessions were mandatory for all employees and even a portion of executives' salaries were dependant of their participation in the workshop.

## **SUMMARY**

In order to apply the HP Way to other areas and geographic locations, the HP Way should be implemented in each of the new areas with an initial focus on one to three of the five values so that it can be readily modified as was done at Colorado Springs. In 1979, HP was a company where the employee satisfaction rate was 25% over the country average; the HP Way was a success as big as the company. However, by 1990 the culture had changed, the company's layoff, relocations and acquisitions had worsened the culture and employee satisfaction levels just like company stock had gone down. In search of the solution, HP decided to centralize its financial and accounting structures. The company came up with the Shared Service Center (SSC) idea which was an innovative approach to standardizing the delivery of common processes regarding financial and accounting transaction on one or several locations. The SSC is an idea created by HP in 1990 to reduce costs while improving services and developing expertise. The main thing other firms can learn from HP's experience, is to never lose sight of 'what business we are in'. Too many times, firms expand without considering their original mission and objectives. This causes firms to encounter a myriad of problems with expansion and growth, which negatively affects employees and its external network of stakeholders. It is important for firms to remember that the vision, mission and overall objectives of the firm shall always remain the same in order to grow successfully in the domestic and global environments. Another thing other firms can take away from the situation at Hewlett-Packard is to think about how they can effectively transplant and modify a corporate culture for diverse workers in diverse environments. Firms need to take heed that 'what works at home will not always work abroad', and plan accordingly. Taking heed of these recommendations along with making sure to develop a solid framework for business growth can help firms to avoid many common, careless mistakes in future situations.

## **DISCUSSION QUESTIONS**

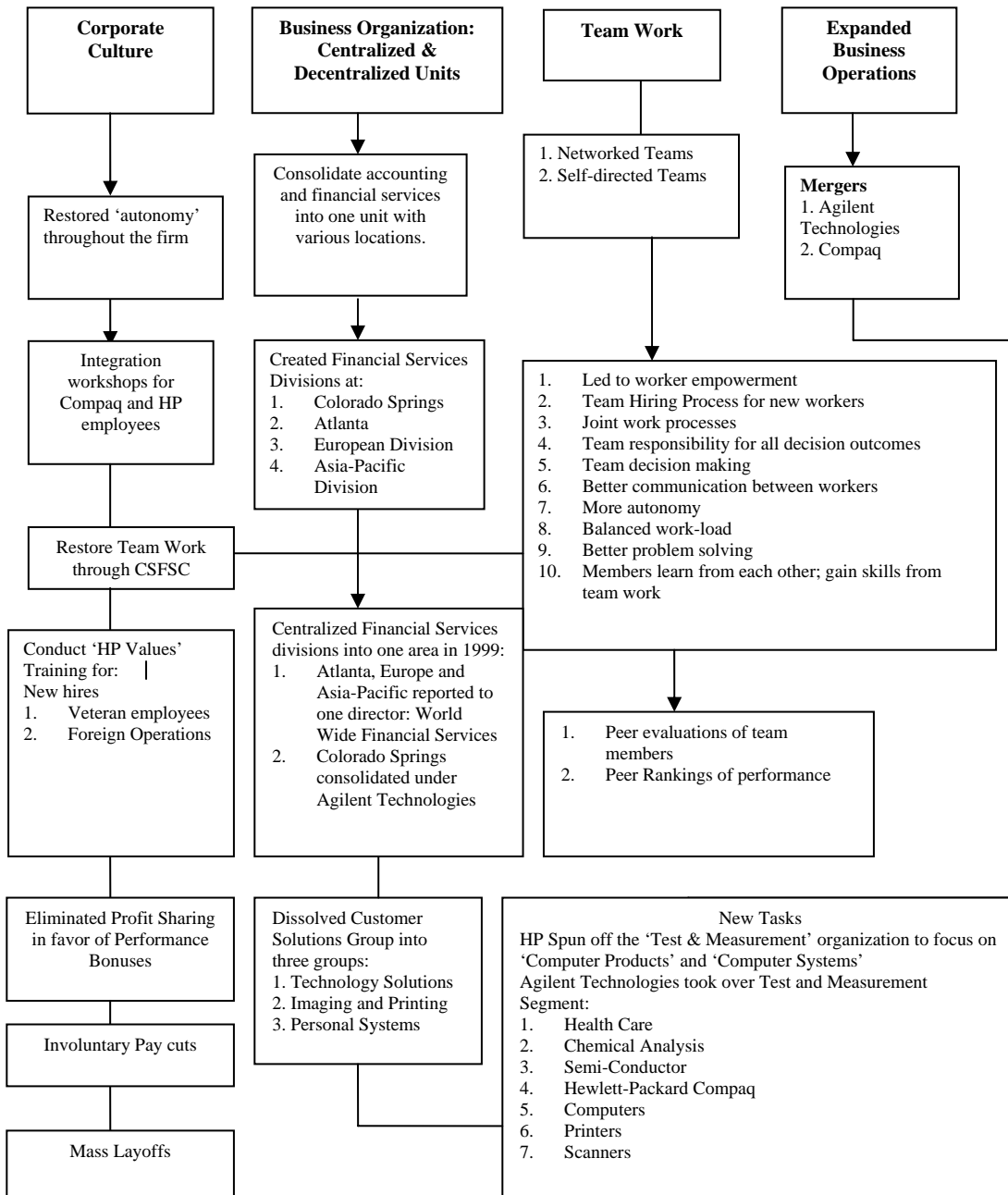
1. Has Hewlett-Packard gotten too big to practice the HP Way?
2. What can be done to better integrate some of the main principles of the HP Way into the merged company (HP-Compaq)?
3. Can some of the principles of the HP Way be adapted to other firms in similar situations?
4. Can the HP Way be successful in different countries across Asia and Europe without any specific accommodations to the local culture? Discuss and explain.
5. Can the HP Way be just as successful in both high and low context cultures? Discuss and explain.

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Figure 1 - The New Hewlett-Packard 1995-2006



**NOTES**