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**ORGANIZATIONAL
Dynamics**

STAR PERFORMERS: Paradoxes wrapped up in enigmas <i>Manfred F.R. Kets De Vries</i>	173
Top management talent, strategic capabilities, and firm performance <i>William F. Joyce, John W. Slocum</i>	183
Engaged or just connected? Smartphones and employee engagement <i>Judith S. Maccormick, Kristine Dery, Dari G. Kolb</i>	194
BUILDING ENGAGEMENT FROM THE GROUND UP: How top organizations leverage networks to drive employee engagement <i>Rob Cross, Peter Gray, Alexandra Gerbasi, Dimitris Assimakopoulos</i>	202
UNLEASHING LEADERSHIP POTENTIAL: Toward an evidence-based management of emotional intelligence <i>Frank Walter, Ronald H. Humphrey, Michael S. Cole</i>	212
CSR PARTNERSHIP INITIATIVES: Opportunities for innovation and generative learning <i>Manuel London</i>	220
GOOD GOVERNANCE: A role for organizational politics and organizational democracy in creating moral communities <i>David Butcher, Martin Clarke</i>	230

(Contents continued on OBC)

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The building of employee distrust: A case study of Hewlett-Packard from 1995 to 2010

Kimberly D. Elsbach, Ileana Stigliani, Amy Stroud

INTRODUCTION

On January 12, 1998, *Fortune* magazine published its first-ever ranking of the “100 Best Companies to Work for in America”. This ranking was designed to measure employee trust in a company based on five values related to trust that were developed by the *Great Places to Work Institute*. These five values included the organization’s credibility, respect, fairness, pride, and camaraderie with regard to employees.

In the inaugural survey, Hewlett-Packard came in at #10, and remained there in the following year’s survey. Yet, by the fourth ranking, in 2002, Hewlett-Packard had completely dropped off the list. Worse, Hewlett-Packard never returned to the list during the ensuing nine years. In fact, by late 2010, *The Washington Post* described Hewlett-Packard as a company with “undermined and frayed” values, and one in which employee trust had been severely, if not irretrievably damaged.

What happened to Hewlett-Packard? How did one of the “100 Best Companies to Work for in America” in 1998 become so much less desirable by 2010? In particular, what happened to employee trust in the company? Since employee trust was the basis for the “100 Best Companies to Work for in America” survey, understanding how employee trust was affected during HP’s downfall seems essential to unlocking the answer to this reputation puzzle.

We will examine the story of employee trust in Hewlett-Packard (called HP hereafter), through publicly-available documents, from 1995 (prior to the first *Fortune* survey), through 2010. We focus our analysis on signals about the company’s values from both the behaviors and language of HP leadership. We examined these signals for information that might affect the five values related to trust measured by the *Great Places to Work Institute* (i.e., credibility, respect, fairness, pride or camaraderie), and identified over 300 statements or actions that appeared related to these values.

Our analysis suggests that HP’s fall from the rankings was not due, primarily, to diminishing employee trust, but to an increase in employee distrust. In particular, we found that HP and its leaders provided signals of values that led specifically to employee distrust. These values were organizational *disrespect* for employees, *dissatisfaction* with employees, and *unfairness* in employee treatment. Our findings help to shed light on the specific actions of organizational leaders that are likely generate employee distrust. We illustrate these findings in detail in the following case study and summarize them in a framework of “Building Employee Distrust” depicted in Fig. 1.

EMPLOYEE TRUST AND DISTRUST AT HEWLETT-PACKARD: 1995–2010

We examine employee trust and distrust in HP in six stages. The first stage, covering the years 1995–1998, sets the stage for the initial ranking of HP as one of the “100 Best Companies to Work for in America” and shows how and why HP achieved this ranking. The second stage, covering the years 1999–2001, illustrates how HP began to build distrust with its employees through the actions and language that began with their new CEO, Carly Fiorina. The third stage covering the years 2001–2002 reveals how employee distrust was further established through a controversial merger between HP and Compaq Computer. The fourth stage, covering the years 2002–2004 examines the entrenchment of employee distrust during attempts to establish new values for HP. Finally, the fifth and sixth stages, covering the years 2005–2006, and 2006–2010, illustrate a series of failed attempts to improve trust (without first removing distrust) by another new leader at HP, Mark Hurd. Before describing these six stages, we provide some background on HP and its historical values, as well as the business climate at the time.

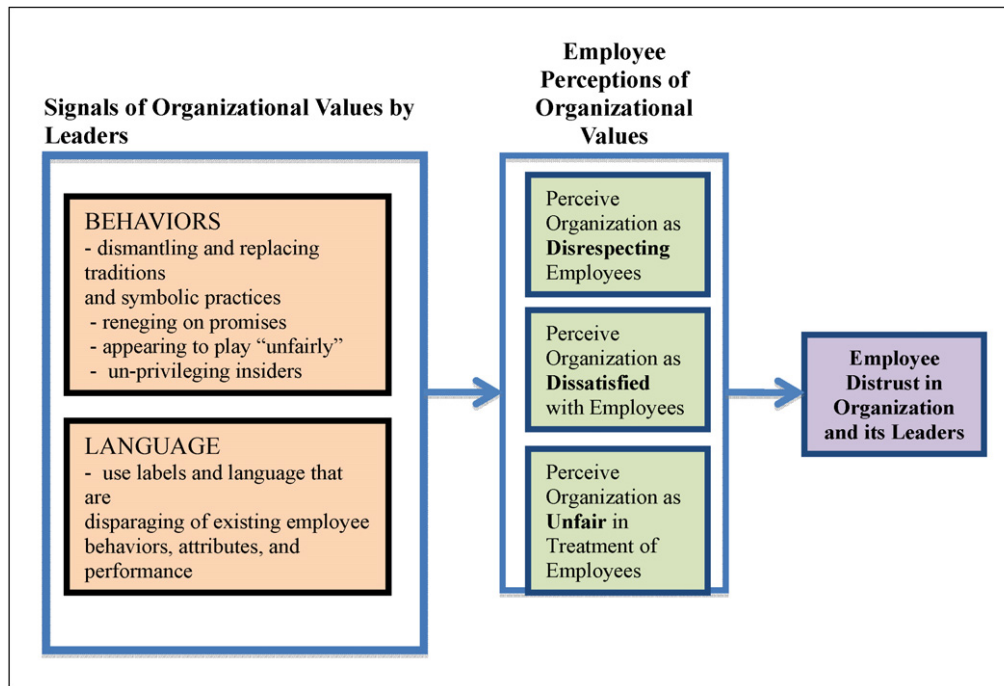


Figure 1 The Building of Employee Distrust: Value Signals and Perceptions

Background: Hewlett-Packard and the “HP Way”

In 2011, Hewlett-Packard was a multi-national, high-tech company specializing in developing and manufacturing information technology (IT) including personal computers, industry servers, storage devices, networking products, imaging and printing devices, and software. The company was headquartered in Palo California, USA, and had offices in more than 170 countries on six continents. HP was ranked as the top IT company world-wide in revenues, and maintained over 324,000 employees.

The company – called the “godfather of Silicon Valley” – was started by two Stanford Engineering graduates, Bill Hewlett and David Packard in a one-car garage in Palo Alto. When HP went public in 1957, Packard wrote down the management beliefs he and Hewlett shared, including a respect of and trust in employees, an environment that fostered creativity, and a flat management hierarchy. These ideals became known as the “HP Way” and served as a model for company culture in the emerging Silicon Valley. Over time, the HP Way became synonymous with a culture that embraced flexible work hours, creative freedom, great employee benefits, and a sense that layoffs would be used as only a ‘last resort.’ In return for this positive culture, employees gave their all to the company, even taking pay cuts to avoid layoffs, and remaining loyal when other job offers came their way. By the mid 1990s, the HP Way was known worldwide as a model for entrepreneurial corporate culture.

It is important to note, however, that HP was not without challenges at this point in time. In the mid 1990s HP had five major divisions: computers, electronic instrumentation, medical instrumentation, chemical analysis, and electronic components. Like most IT companies at this time, HP was subject to increasing competitive pressures and squeezed to reduce their costs across all of these business units. As a

result, HP’s leadership was constantly looking for cost savings, including moving jobs overseas (in manufacturing, customer support, finance, and human resources) and reducing employee services (such employee IT services and human resources support). While it is likely that these economic and competitive pressures put a strain on employee trust at HP, our analysis suggests that it was not cost-cutting measures per se that led to employee distrust. Instead, as we outline in more detail below, it was the communication and value signals that accompanied many of HP’s actions that was central to building distrust among HP employees. We begin our story of employee trust and distrust at HP below.

Hewlett-Packard 1995–1999: Understanding Employees’ Initial Trust in HP

From 1995 to 1998, popular press stories about HP revealed a number of leadership decisions that signaled a strong respect for employees by the company. For instance, in a pair of stories accompanying the announcement that HP had received a Distinguished Partner in Progress Award for its operations in Singapore, several employees remarked on the trust and respect that the company and its leaders showed for its workers. In particular, employees reported that the company’s leaders gave them the freedom to decide how to do their own work, which suggested a respect for employees’ abilities and integrity. As was reported in *The Straits Times* on June 17, 1995:

Mrs. Anne Lim ... has a particular liking for the way her employer, Hewlett-Packard, tells staff what to achieve but leaves the how-to-do-it to them. ... “It’s the belief in people, that they want to work hard and do their best, and then recognition will be forthcoming”.

This type of respect was claimed as the reason that 47 of the original 62 employees at HP Singapore had remained since starting their jobs 25 years ago. The Straits Times continued this theme in a second story, also published on June 17, 1995. As they noted:

Mr Soo Kok-Leng, 43, HP's director of human resources (Southeast Asia) ... explains, "There's no feeling of hierarchy here; everyone can talk like colleagues and not feel threatened". ... Overall job goals are made known, but employees are left to achieve them as best they can. As Mr. Soo put it, "We provide the resources and environment, then let them loose, with no fixed rules".

Other stories signaled company respect for employees by highlighting the many programs designed by HP to give employees flexibility in work schedules. These programs showed that the company respected employees' ability to best manage their time. For example, one story, reported in the Irish Times on November 21, 1997, noted that:

Hewlett-Packard Ireland Sales has introduced a programme allowing up to 40 percent of the 100 strong staff at its Blackrock, Co Dublin offices to work from home or other non-office locations ... "I hope that it gives employees more choice and more flexibility. It makes us an employer of choice and should help us retain people and keep them happier", says Mr. Brian Kennan (managing director). ... "This is not about the company getting a return on these modems. It is about giving people more choice".

In addition, HP was portrayed as having high camaraderie by its employees, who called the company "a close knit family", and "a second home". This camaraderie was made even more evident in a new television advertising campaign that debuted in early 1997. As was reported in the New York Times on January 3, 1997:

Hewlett-Packard gently pokes fun at its own engineers in an effort to make its technology seem more accessible. The ads, ... propose wacky uses for Hewlett-Packard printers and bear the slogan 'Built by engineers, used by normal people'.

Finally, HP was portrayed as credible through news stories that showed how they followed-through on statements about employee benefits and a commitment to work-life balance. This credibility was noted by Fortune in its first ranking of the "100 Best Companies to Work for in America", published in January of 1998. In describing HP (#10 on the list), the magazine called the company "a trailblazer in people practices" and noted:

[HP] recently added domestic-partner benefits and nursing-home-care insurance for spouses, parents, and grandparents to an already lush benefits package. "They walk the talk" when they say their people are the most important asset, one worker told us.

In sum, in years leading up to HP's #10 ranking in the Fortune "100 Best Companies to Work for in America" survey, the popular media revealed extensive actions by the company and its leaders that showed respect for employees, fostered camaraderie among employees, and were viewed as credible by employees. These signals came in the form of leader

comments, as well as programs and policies that were publicly enacted and promoted by HP leadership. In particular, use of terms such as: "belief in people", "open management style" and "respect for employees" clearly signaled that employees felt respected by the company. In addition, terms such as "close knit family" and "second home" indicated that employees felt a sense of camaraderie. Finally, phrases such as "they walk the talk" strongly suggested that the company was viewed as credible by employees. Given these strong signals, it is not surprising that employee trust was relatively high at this time (reflected in the high ranking in the Fortune survey). Yet, that was all about to change.

1999–2001: Signals of Dissatisfaction as the Foundations of Employee Distrust

On July 19, 1999 HP announced that it was appointing a new CEO to replace retiring Chairman, Lewis Platt, who had led the company for seven years. In a move that surprised most industry analysts, the HP board appointed an outsider, Carly Fiorina – former director of Lucent Technology's Global Services business unit – to be the new CEO. HP had rarely appointed outsiders, especially in top management positions, and Fiorina was known for being highly competitive and results oriented, which put her at odds with HP's existing values (i.e., the HP Way).

Almost immediately after being appointed, Fiorina made a series of decisions and comments that indicated *dissatisfaction* with current HP employees. These signals of dissatisfaction became the foundation on which employee distrust was built. For example, in an interview immediately following her appointment, which was broadcast on National Public Radio on July 19, 1999, Fiorina claimed that HP needed to be "reinvented". Specifically, she noted:

I think in general, the people of HP would agree that we need to increase our sense of urgency, reinvigorate our competitive spirit and focus on speed.

In addition, Ms. Fiorina's use of the words "competitive" when talking about what needed to be changed at HP also suggested that camaraderie was no longer a priority. In a keynote speech at the high-tech Comdex conference later that Fall, Fiorina also talked about "reinventing" HP by taking more risks and moving more quickly. Together, these comments suggested that there was something wrong with the existing values and employee behaviors at HP, and that, as a result, HP needed to be fixed.

Industry experts and observers took note of Fiorina's comments and predicted the end to the HP Way, including its long-standing traditions of employee respect and camaraderie among engineers and other creative types. As one observer at the annual Comdex conference (a large computer and high-tech conference) noted in a December, 1999 article in Electronic Engineering Times:

Fiorina ... talked about a company culture that balances radical ideas and inventiveness with traditional approaches. Sentimentalist that I am, the words I heard were these: The legendary HP way is dead. As carved out by the founders, the old ways of careful deliberation, conservatism and tradition are part of history, along with the famous one-car garage that was HP's first home.

Technology consultant Mark Anderson went further, saying earlier that year: "Picking her [Fiorina] is not about technology or strategy. It's about culture".

On January 10, 2000 HP fell to #43 on *Fortune's* annual survey of the "100 Best Companies to Work for in America. Perhaps, sensing nervousness among HP employees about the company's impending "reinvention", *Fortune* reported:

New CEO Carly Fiorina promised that the new, streamlined HP ... would remain true to the culture of integrity and respect known as the HP Way.

Yet, Fiorina's actions continued to suggest that the old HP ways would not last and that current ways of doing business at HP were unacceptable. Thus, in the summer of 2000, Fiorina launched a new global advertising campaign designed around the theme "Invent" featuring the new CEO as narrator. This new campaign was the first time that HP had produced an all-encompassing brand message for its products (vs. having a number of campaigns produced by individual business units). In this way, the ad campaign mirrored Fiorina's goal of centralizing control over HP's business units and removing the tradition of entrepreneurship previously enjoyed by these divisions. Other HP leaders' comments about this new ad campaign made it clear that HP's prior focus on individual business units was seen as dissatisfactory. As was noted in an article published in *USA Today* on June 1, 2000:

Hewlett-Packard's advertising had mirrored its decentralized, entrepreneurial structure. The printer group had its own advertising, the PC division sponsored its work and the e-services unit ran its own campaign. *Just as the company suffered from what seemed a lack of focus, H-P's fragmented advertising had difficulty building brand strength.* ... "The difference you'll see from HP now and in the foreseeable future is that this is an integrated campaign" says Allison Johnson, head of communications. [emphasis added]

These signals of dissatisfaction may have been especially notable by employees because HP was not performing particularly badly at this time. In such cases, the need for "reinvention" is not evident to most employees, making the push for such change that much more distressing. Thus, it was not surprising that, in the next ranking of "100 Best Companies to Work For" list, published on January 8, 2001, HP's ranking fell to #63. Employee distrust in Hewlett-Packard was apparently becoming established.

2001–2002: Signals of Disrespect and the Growing of Employee Distrust

On April 19, 2001, HP reported that their earnings were severely down and pay bonuses and raises would be suspended, while managerial staff would be cut. Then, in July, employees were asked to take voluntary pay cuts to fend off further layoffs, which were eventually taken anyway (i.e., 6000 were laid off in late July, 2001). Such actions, rare at HP, undercut HP's credibility as a "people first" employer, and signaled disrespect for employees by reneging on a promise to forego layoffs. This disrespect was made further evident by HP's board of directors when, instead of criticizing Fiorina for

her lack of integrity, took the unprecedented step of issuing a statement declaring their unwavering support for Fiorina. On August 20, 2001, Canada's *National Post* reported:

Directors of Hewlett-Packard Inc. broke a tradition of silence yesterday to declare their 100% support for Carly Fiorina, the embattled chief executive, despite the company's weak financial performance over the past nine months. ... They also gave their wholehearted support to Ms. Fiorina's changes to HP's operations and culture.

This vote of confidence was important, because just two weeks later, on September 4, 2001, HP announced that it was seeking to merge with Houston-based Compaq Computer Corporation, to form the world's largest PC maker. Early reports indicated that the merger would result in at least 15,000 lost jobs and a new culture at HP that would focus on sales and services, rather than engineering innovation. In a September 6, 2001 *New York Times* story, company spokespersons also indicated that HP was looking to become an "alternative to IBM" – suggesting an identity change from a more specialized producer of computing products, to a large corporate force in information technology.

Observers, analysts, and especially employees immediately protested what they saw as an end to the HP Way. They also saw this move as a sign of disrespect for HP's traditional engineering culture. As was reported in the *Electronic Engineering Times* on September 17, 2001:

I suspect electrical engineers will take more than their share of the proposed [job] cuts of 15,000 if HP's acquisition of Compaq goes forward. ... Fiorina implies she wants to build the next IBM, but I doubt she has the taste for the engineering costs. Maybe she really is poised to reverse HP's three-year slide in R&D expenditures as a percentage of sales, but the move to acquire a company that spends even less on engineering speaks otherwise. Fiorina once courted PriceWaterhouseCoopers. I think that shows where her heart lies. If the rice flies at this wedding, engineers had better duck.

A tenacious and well-publicized proxy fight then ensued when David Packard, eldest son of one of the founders of HP, sent a statement to shareholders on November 11, 2001, opposing the merger on the grounds that it would destroy the culture at HP and that its accompanying loss of 15,000 jobs was in stark opposition to the founders' values. Packard's statement strongly suggested that the new leadership of HP disrespected employees. As was reported in the *New York Times* on November 8, 2001:

David W. Packard has slammed Carly Fiorina, HP's CEO, for a 'weakest link' style of management. "My father and Bill Hewlett managed a company in a way that is was never necessary to tell people, 'sorry, business is not so good right now. Goodbye'".

These statements by Mr. Packard showed an alliance with employees and a distancing of the founding families from the current CEO.

HP then launched a series of attacks on Mr. Packard – who was eventually joined by all members of the Hewlett and Packard families in opposing the merger – through company news releases. These news releases focused on the theme of

change, and the notion that if HP stands still, it will be overtaken by the competition. Terms like “bold steps”, “withstanding challenges”, and “charging ahead” were used in these news releases to describe the merger and indicated further dissatisfaction with current and past business practices. By contrast, opposing the merger was described as “retreating into the past”, “incremental approach”, and “attempting in vain to preserve the status quo”, again, suggesting a lack of pride and dissatisfaction in the current organization.

While there were advocates on both sides of the merger debate, most comments from employees appeared negative, and suggested an increasing distrust in the company and its leader. Many of these comments equated the merger with layoffs and, like David Packard, suggested that making a deal that required layoffs was not the HP Way. In particular, employees complained that such a deal would signal disrespect for employees and a dissatisfaction with the long-standing culture of HP. As the *Christian Science Monitor* reported, on December 17, 2001:

[Employee] Judy Anderson won't hesitate for a moment. Her 500 shares aren't that much, she knows, but she'll pledge them all against the effort to join with Compaq Computer ... she opposes any such merger solely because it's not the HP Way. ... For many HP employees and shareholders like Ms. Anderson, ... the vote is about much more than the bottom line: It's about the soul of one of America's most storied businesses – the original Silicon Valley start-up. ... Laying off 15000 employees is not my idea of the HP Way, agrees Ms. Anderson. ... “If that merger goes through, the HP Way is dead”.

In apparent reaction to these claims, HP fell completely off the 2002 list of the “100 Best Companies to Work For”, published on February 4, 2002. Further, at the pivotal shareholder meeting in which the merger was voted on, Walter Hewlett received a standing ovation, while Carly Fiorina received boos.

The merger did pass, however, by the slimmest of margins, meaning that the layoffs would happen, and that Fiorina would have to soldier on with a new company, all the while knowing that a great many of the remaining employees voted against the merger. As one reporter put it: “With so many of HP's shareholders having voted against the union, her seat will remain distinctly hot. ... It will be hard to motivate Hewlettites to give their best for the new firm. Some are sure to leave”.

2002–2005: Displays of Unfairness and Entrenched Employee Distrust in the “New HP”

Shortly after the merger, a voice mail message, that was sent from Fiorina to Robert Wayman, HP's chief financial officer just prior to the merger vote, was leaked to the press. In this voice mail, Fiorina was heard discussing the potential votes of two major shareholders. As the *New York Times* reported on April 16, 2002:

In the message Ms. Fiorina expressed concern about the votes of Deutsche Bank and Northern Trust and is heard saying, “We may have to do something extraordinary for those two to bring 'em over the line here”.

While there was no conclusive evidence that Fiorina had done anything improper to sway votes, the company's image of integrity was damaged, further supporting employee distrust.

This distrust stemming from a Fiorina's apparent “unfair” play was expressed repeatedly over the following months as employees and industry experts and former employees lamented the loss of the HP Way and path, down which the “New HP” was apparently headed. As one former employee noted in a story published in the *Electronic Engineering Times*, on April 22, 2002:

Much has been written about the HP Way, a standard of behavior that emphasized innovation, a respect for the individual and a culture that represented the best in all of us. Bill and Dave built a company where engineers wanted to work. There was something special about that place – stand tall, feel proud, it was family”.

This employee went on to explain:

The issue bothering many folks wasn't the merger itself but something else. It was about the end of an era, an end to the belief that it's important to be a great company to do business with, a great company to work for, a company that puts its people and principles first.

Finally, he lamented:

The HP Way is about yesterday's culture. Now we live in a world where principles are tossed out the window and anything goes as long as it means making a buck. ... It was a better world when we lived it the HP Way. But unfortunately, those days are gone forever.

Such comments were repeated in other columns and employees' nostalgia for the “Old HP” became noticeable when an “HP Alumni” association was created in June, 2002, to “help members maintain relationships created while working as colleagues with the company”.

By the end of 2002, it was apparent that the HP Way was lost when a visible symbol of its tenets – open source software guru Bruce Perens – was fired from the company. As the *New York Times* reported on September 9, 2002, Mr. Perens exit was both caused by and symbolic of the change in HP culture and values:

Bruce Perens was a senior strategist for open-source software at Hewlett Packard – an evangelist and rabble-rouser on behalf of a computing counter culture that is increasingly moving into the mainstream. ... In the pre-merger Hewlett, Mr. Perens ... enjoyed a lot of independence ... “It was a pretty unique job that existed because of the HP culture”. Mr. Perens said. “I would still be at HP, I think, except for the Compaq merger”.

HP did not re-enter the rankings of the “100 Best Companies to Work For” in 2003 or 2004, and while it improved its performance in new areas such as wireless IT, it struggled to meet profit expectations. By the third quarter of 2004, the company announced that its profits would come in well below Wall Street forecasts. Calling the failing “unacceptable”, CEO Fiorina promptly fired three executives in the computer server and storage unit. Analysts openly questioned the wisdom of the two-year-old merger and complained that, while the merger cut costs, it produced none of the synergies

that were promised by Fiorina back in 2002. Some even called for a breakup of the merger, while others mocked Fiorina's statements from 2002, when she famously predicted: "The wisdom of this decision will become more and more evident over time".

2005–2006: Failed Attempts to Regain Employee Trust

On February 9th 2005, Carly Fiorina, who had been at the helm of Hewlett Packard for the last five years, stepped down as chief executive officer – forced out by the board. Robert Wayman, chief financial officer and a 36-year Hewlett-Packard employee, was named interim chief executive and appointed to the company's board, while Patricia Dunn, a director at Hewlett-Packard since 1998, was named nonexecutive chairman of the board.

The media reported the news as the end of "Queen Carly's reign"; a reign during which "Her Royal Horribleness" had tried to eviscerate HP's culture and to alienate HP employees brought up in the HP way, the "company's once sacrosanct corporate culture". Although also ascribed to the poor performance results obtained, and to her inability to meet the "impossible expectations" to turn around the company, the press insisted on the fact that the main reason why she was "ousted" was because her "celebrity style" strongly clashed with the HP way.

In particular, a few days after Fiorina's ousting on February 14, 2005, the New York Times, in an article entitled "Tossing out a chief executive", retrospectively reconstructed the different things that Carly did in order to "trample over tradition" and as a result, show great disrespect for and dissatisfaction with most long-time HP employees. These sins included her negotiation of an exorbitant compensation package (\$3 million signing bonus and a stock package worth \$65 million), request to the board to pay the cost of shipping her 52-foot yacht from the East Coast to the San Francisco Bay, and introduction of a different worker evaluation system that was more rigorous and less generous. She was also criticized for her decision to launch a \$200 million marketing campaign to alter the company's brand identification, changing the company's name in advertisements from Hewlett-Packard to simply HP. Finally, she cast herself as the star in a television advertisement standing in front of the original garage where Hewlett-Packard was founded and put herself forward as the face of innovation and change at HP. Further she introduced new cultural tag-lines, such as the "Rules of the Garage" and "+HP way", as modernized versions of the traditional "HP way". Together these actions were listed as the most evident signs that "she had failed to understand what she had set out to transform".

In March of 2005, Mark Hurd was appointed as new CEO of HP. Immediately, he made clear his intention to restore and adhere to the original HP way. One of the first things he said was that he had read "The HP Way", the seminal book about HP and the culture written by Bill Hewlett and Dave Packard, thus showing his understanding of and respect for HP's roots and heritage. But he also informed the media and analysts that they would not be hearing much from him in the initial months, as he was going to focus on correcting the company's course. He promptly communicated his respect for all employees in an

email, which was reported by Canada's National Post on March 31, 2005:

I look forward to rolling up my sleeves, getting to work and meeting as many of you as I can in the days to come.

Moreover, in a presentation that was sent live to all 150,000 employees worldwide the day after his appointment, he emphasized the culture of teamwork and openness typical of HP, which clearly signaled his firm intention to restore a sense of camaraderie and pride among employees.

At the same time, the HP board emphasized those aspects of Hurd's style that made him look similar to the founders. It signaled respect for employees and a commitment to camaraderie that had been part of the original HP Way. As suggested by the words of board member Patricia Dunn in a press release, reported by the National Post on March 31, 2005:

Let me just say, I think no one will be shocked to see Mark eating lunch in the cafeteria. He's a *roll-up-your-sleeves guy*, and the more we talked with him, the more comfortable we became that Mark would be effective in working with HP people. [emphasis added]

The months following Hurd's appointment saw him adopt a quieter and lower-key style in sharp contrast with Fiorina and more in line with the camaraderie of the original HP way. There were no more trips in the corporate jet to fly, no participation in fancy and prestigious meetings – such as the World Economic Forum's annual summit – no fanfare, pre-announcements or public lectures when he visited the HP foreign offices. Instead, Hurd sought to show a strong focus on the main company's employees, customers and partners – signaling a respect for these organizational members and their ideas. As Hurd explained in an interview to The Business Times Singapore on August 25, 2007 after his visit to the Singapore offices:

I'm not trying to make it a secret [that I'm here], it's what I do in most places that I visit. I come to see our employees, our customers and our partners, those are the core assets of HP. So when I'm here in Singapore, I get to meet our employees, I get to speak to them as a group. I do that every place I go. And I will see almost 20 customers while I'm here. ... I do not have our people running around trying to have me give big speeches. Unless they think it's really important; then we can set it up. But again, when I think about how to run a business, I start by thinking about our people, our customers and our partners. So my schedule typically revolves around that.

Initially, Hurd's understanding of and respect for HP's employees seemed to be what drove his decision making. When confronted with the necessity to cut jobs, for example, he invoked Bill and Dave's toughness to explain the reasons of his choice to HP employees, as reported by the Irish Times on November 10, 2006:

He [Hurd] said many people have misinterpreted the HP Way to mean its founders were "soft guys" who would have avoided tough actions. They weren't, but giving them a tough guy image aligns them more comfortably to Hurd's approach. Hurd's first step as new chief executive was to cut 15,000 jobs – a task he says was his most difficult as chief executive but which he says employees knew was coming. He said he made sure to talk to them: "I tried to connect the dots for them, to tell the whole story".

He adds: "I think they always felt talked to. It's not that tough things don't get done, but that they get done the right way", he says, referring to the HP Way.

Nevertheless, he also made a series of decisions in sharp contrast with the old values of the HP way – which earned the label of "the Hurd way" emphasizing his autocratic leadership style. First, he did not seem to show his satisfaction with current employees in the same manner as the founders. As reported by *Fortune*, in an article published on April 3, 2006, only one year after his appointment:

He's axing 15,300 additional jobs, about 10 percent of the total; trimming R&D cutting back on HP's "e-inclusion" program, which promotes computing in the developing world; and freezing pension benefits, a move that puts HP in line with most of the high-tech industry but *markedly out of step with its generous, paternalistic past*. [emphasis added]

In addition, Hurd decided to hire external executives from Siemens, PalmOne, and Dell instead of internal HP leaders who had grown their careers over many years at HP. Although the practice of appointing executives from outside over internal ones was not entirely new at HP, this action further signaled dissatisfaction with current HP employees and executives. Finally, he took actions that seemed to disrespect HP's engineering traditions. For example, although he stated that "There's no question R&D remains the lifeblood of our company", he cut research expenditures by \$100 million a year, and concentrated almost all his efforts on restructuring and improving sales.

As a result, employees remained distrustful of HP and its leader at this point. As one employee noted, in a *Denver Post* story from July 20, 2005: "Morale has definitely dropped. The general feeling is: 'Could I be next?' [to be laid off]". Later that year, at a memorial service for prior HP CEO Lew Platt, HP employees waxed poetic about Mr. Platt's care for employees, and contrasted him strongly with all CEO's that had come since – including Mark Hurd. As the *San Jose Mercury News* reported on October 19, 2005: "Platt . . . was seen by many as the last chief executive to embody the so-called "HP Way", a company culture that among its many tenets professed respect for the individual".

To undo distrust, it appears that Hurd needed to do more than simply engage in some behaviors and language that signaled respect, satisfaction, and fairness with regard to employees. He needed to convince employees that he was different from leaders of the past. He also needed to get them involved in building a new "HP Way" (more attuned to current realities) that would be credible and acceptable to long-time employees. Such disconnection from the past and engagement in building a new identity for the future have been shown to be critical to establishing employee identification with a changed organization. Without involving employees in undoing their distrust of HP leadership, Hurd could not begin to engender new trust.

2006–2010: Continued Signals of Unfair Play and the Downfall of Mark Hurd

Mark Hurd never got the chance to undo employee distrust at HP. In a crushing blow to Hurd's attempts to rebuild trust, it

was revealed in late summer of 2006 that investigators, hired by HP, had used fake identities to obtain the private phone records of nine journalists, seven board members and two HP employees – a tactic called "pre-texting" – and put them under surveillance in order to winnow out who was repeatedly leaking boardroom discussions to media. The investigation, known under the name of Kona files, soon deteriorated into a real obsession with leaks. Suspicions fell on George Keyworth, the board's longest-serving member, and board meetings became so fiery to deserve the label "the duel of the dragons". When Tom Perkins, a powerful and long-term member of the board, alerted the authorities, allegations became a scandal that forced the chairwoman Patricia Dunn, who had authorized the investigations, and Keyworth to resign in September 2006.

In an attempt to contain the widening scandal, Hurd called a news conference and acknowledged that the phone tapping had deeply shocked many who admired the HP's legacy of integrity and responsibility, embodied in the HP way. In particular, these actions showed blatant disrespect for HP employees and board members, and damaged the company's image of "fairness". In response, Hurd claimed, in a September 13, 2006 story reported in *USA Today*: "I am taking action to ensure that inappropriate investigative techniques will not be employed again. They have no place at HP".

This seemed to be the beginning of the end for Hurd, as observers commented that HP had completely "lost its way" in the obsessive rush to find the source of the leaks. As *The Sunday Times* reported on September 17, 2006:

Last week, amid allegations of boardroom leaks, spying and possibly illegal impersonation, one thing became clear: the spirit of its founders may live on, but Hewlett-Packard has well and truly lost its Way.

In an article published on September 29, 2006, the *Toronto Star* further emphasized the loss of HP's positive identity and any sense of pride that employees once had in the company:

What makes this story so sad is this wasn't just another company. HP was once a company that stood for something special.

While the same day *USA Today* denounced the profound damage to HP's credibility:

It was a humiliating scene for one of Silicon Valley's original tech giants, which prides itself on an upstanding manner of business known as the HP Way. Suddenly, it's being compared to Enron and other wrongdoers. The snooping scandal "would make Richard Nixon blush if he were alive", says Rep. John Dingell, D-Mich. It was "a fine display of arrogance, cover-up and probably gross stupidity". "It sounds like Watergate. It's HP-gate", says Needham & Co. analyst Charles Wolf "This thing gets deeper and deeper".

While still hurting from this public scandal, two years later, in May, 2008 HP announced the acquisition of the leading global technology services company, Electronic Data System (EDS). The deal – HP's largest acquisition since Compaq – set out to make HP the second-largest company

in the IT Services sector, behind IBM, as explained by Mark Hurd in a news release on the HP website:

The combination of HP and EDS will create a leading force in global IT services. Together, we will be a stronger business partner, delivering customers the broadest, most competitive portfolio of products and services in the industry. This reinforces our commitment to help customers manage and transform their technology to achieve better results.

Yet, the acquisition of an IT service provider like EDS showed a lack of understanding of HP culture and management strengths. There was no attempt to integrate the business strengths of EDS with the hardware capabilities of HP. Instead, the acquisition was treated as merely a cost-cutting proposition, and within months, HP announced that 24,600 jobs were to be axed over the following three years as a part of its integration with EDS. The cuts represented HP's most aggressive move under Mark Hurd, and were followed by the decision to impose staff salary reductions, and to scale back its 401(k) pension contributions for employees, who would no longer be able to buy company stock at a discounted rate. Hurd explained these changes in an internal letter to employees reported by [CNET News](#) on February 19, 2009:

My goal is to keep the muscle of this organization intact. But we do have to do something . . . because the numbers just don't add up and we need to have the flexibility to make the right long-term investments for HP. So we are going to take action. We have decided to further variabilize out cost structure by reducing pay and some benefits across HP. My base pay will be reduced by 20 percent. The base pay of all other executives will be reduced by 10 percent. The base pay of all other employees will be reduced by 5 percent. For non-exempt employees, base pay will be reduced by two and-a-half percent. Additional efficiencies, including changes to the US 401(K) plan and the share ownership plan, will also be implemented.

Together, these actions suggested that, like Fiorina, Hurd was dissatisfied with many HP employees (who presumably made up "the fat" of the organization that needed to be cut). These actions did nothing to improve employee trust, and in fact, added to the entrenched employee distrust at HP.

Mark Hurd finally resigned as CEO on August 6th 2010. Another investigation had found that he had a personal relationship with a contractor who received pay from the company that was not business-related. Although an investigation of sexual harassment found no violation of that policy, Hurd's behavior further spoiled HP's credibility image of "fairness". As commented by general counsel Michael Holston in an interview to the [Toronto Star](#) published on August 7, 2010:

[Hurd] demonstrated a profound lack of judgment that seriously undermined his credibility and damaged his effectiveness in leading HP.

His resignation, forced by the board, embroiled the company in another Hollywood-style drama that added further to employee distrust in the company. As emphasized by [The Washington Post](#) on August 15, 2010:

The HP values have been undermined and frayed by some of the leaders who followed Bill and Dave. Mark Hurd promised to revitalize the HP Way. His actions – hiding expenses to engage in a questionable relationship – undermine the trust essential for a company's sustainable success.

EMPLOYEE TRUST AND DISTRUST AT HP: LESSONS LEARNED

What can we learn from HP's apparent development of distrust among its employees during the first decade of the new millennium? There appear to be two important lessons that illuminate *why* employee trust turned into employee distrust at HP. First, organizational leaders need to be aware that, in addition to signals of respect and fairness (which are often touted by business gurus as key values associated with trust), signals of satisfaction with and pride in employees are important to creating organizational trust among employees. Second, leaders should know that such signals are not only important to building and maintaining trust by employees, but that signals of their opposites (i.e., disrespect, unfairness, and dissatisfaction) may engender employee distrust. We discuss these lessons below.

Signals of Satisfaction and Pride are Central to Employee Trust

Conventional wisdom regarding the building of interpersonal trust in between employees and leaders in organizations emphasizes the signals that an organizational leader is competent, benevolent, and has integrity. In this line, common behaviors that have been shown to enhance interpersonal trustworthiness include promoting a supportive employee environment that show concern for employees (e.g., that including showing respect for employee rights and interests), displaying competent managerial practices (e.g., including demonstrating knowledge and skills relevant to one's job), and fairness in decision making (e.g., giving reasons for decisions, clearly defining rules and policies, honoring organizational commitments, sharing information widely, giving timely feedback, and allowing employee input on important decisions).

The HP case also confirms that respect (i.e., benevolence) and fairness (i.e., integrity) for employees may lead to trust in organizations and their leaders. Our findings suggest, however, that perceptions of *satisfaction with or "pride" in employees* may be additional signals that affect employee trust in an organization. Such satisfaction is distinct from respect or benevolence, because it signals a positive *performance evaluation* of employees by an organization and its leaders. Given the paternalistic nature of many organizations (and especially Hewlett-Packard in its early years), it is not altogether surprising that such signals of satisfaction are desired by employees, especially long-time employees whose self-esteem may be strongly tied to their job performance. In fact, because the expression of admiration and satisfaction reveals emotion, it has been shown to lead to social bonding and trust in interpersonal relationships. Thus, an important implication of the current study is that *expressions of satisfaction with employees may*

be important to building organizational trust. Further, given the positive performance of HP when initial signals of dissatisfaction were introduced by Carly Fiorina, such signals may have been especially distressing and "untrustworthy" to employees.

Employee Distrust is Built Through Signals of Disrespect, Dissatisfaction, and Unfairness

A second and perhaps more important lesson from the HP case is that organizations may not only engender trust by employees through signals about their values, but that they may also engender distrust by employees through these same mechanisms. In particular, our case study suggests that behaviors and language that signal values of disrespect, dissatisfaction, and unfair treatment with regard to employees are likely to not just lower trust, but actually produce distrust. In this way our findings are in line with recent thinking that suggests that trust and distrust are distinct constructs that may exist independently of each other. These more current models of trust and distrust suggest that organizations and their leaders may need to manage both their images of trustworthiness and distrustworthiness.

The behaviors that we identified as producing distrust among HP employees included: dismantling and replacing traditions and symbolic practices that embodied company culture (e.g., moving from independent business units to centralized control, and eliminating the position of "open-source software guru"), renegeing on promises (e.g., laying off workers after they took pay cuts to prevent layoffs), appearing to play "unfairly" (e.g., seeming to use unfair enticements to get board votes for the merger with Compaq), and un-privileging insiders (e.g., taking away perks and preferential hiring from long-time employees, and the hiring of Fiorina from the outside). Together, these actions appeared to signal disrespect and unfairness (that ultimately led to employee distrust) for long-standing traditions and for employees in general. In the same way, other studies have found that signals of disrespect and unfairness in interpersonal relationships may lead to distrust. For example, in their analysis of patient relationships with physicians, Karen Cook and her colleagues noted that "Negative behaviors [by physicians] not only fail to create the conditions that foster trust, they can actually lead to active distrust". They go on to note that one of the primary acts by physicians leading to distrust

is making patients feel disrespected. As one physician in their study noted, "This whole thing about trust is very important. I mean, how can you have a good relationship with someone . . . if you always make the other party feel like they're idiots".

In addition to these behaviors, however, our findings also identified some new and important language signals that portrayed HP as dissatisfied with employees. These language signals included remarks, labels, and evaluations that were disparaging of existing employee behaviors and attributes. For example, labels such as "fragmented" and "plodding" and "incremental" were used by Carly Fiorina and other HP leaders to describe HP's existing business practices and employee culture. Further, remarks about the need to "reinvent" HP, and to only "keep the muscle" at HP indicated that leaders were not happy with the current performance of many HP employees. Together, these remarks sent the signal that HP leaders were, in general, dissatisfied with HP employees. As noted above, signals of satisfaction may communicate the emotion of pride and admiration. Likewise, it seems that signals of dissatisfaction may communicate the emotions of shame and disapproval, and ultimately lead to distrust. In this way, our findings suggest that managers need to be aware of not only the signals sent by their behaviors in managing trustworthiness, but also by their formal statements and casual comments.

Conclusion

The trials of Hewlett-Packard in building trust and distrust among its employees provides a cautionary tale for managers. Our analysis of this case, while certainly not the only study, may be the first to connect the behavior and language of HP leaders to the growing distrust among employees that has plagued the company for more than 10 years. Our findings suggest that organizations need to pay attention to the mechanisms of building distrust as much as they pay attention to building trust. Further, our findings suggest that signals of dissatisfaction with employees, especially through language, may be an overlooked path to trust (and distrust) by organizations.



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For a complete list of citations for quotes, please contact the first author.

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