How Bill Hewlett and I Built Our Company

THE HP WAY

(DAVID PACKARD/Harper Business/July 1996/$14.00)
1. Getting Started

In the last half of 1930, David Packard left his home town of Pueblo, Colorado to attend Stanford University. There, he became a good friend with another freshman who started his university studies at the same time, Bill Hewlett.

David Packard’s parents were well educated - his father was a lawyer and his mother a high school teacher. He was a good student at High School, excelling in science and on the sports field. His passion, however, was the relatively new field of radio and he decided to go to Stanford University to study electrical engineering.

Bill Hewlett’s parents were also academically inclined. In fact, his father was a Professor at the Stanford Medical School until he died when Bill was 12-years old. Despite the fact that he was dyslexic, Bill did quite well at High School, graduating with honours in science. He entered Stanford not really certain whether he would pursue a career in maths, chemistry or engineering.

While at university, Packard and Hewlett formed a close friendship with Ed Porter and Barney Oliver. In fact, the four friends got along together so well they thought of starting their own business in the new field of radio during their senior year. Professor Terman, head of engineering at Stanford, encouraged their plans but advised it would be better to obtain some real-world experience first. Therefore, upon graduation in 1935, Packard went to work for General Electric.

While David Packard was busy gaining some experience at GE, Bill Hewlett stayed on at university. He earned a Master's Degree at Massachusetts Institute of Technology and then went to work for Jensen Speaker in Chicago.

Even though they were working apart, Packard and Hewlett still had the ultimate objective of starting their own company. Therefore, in August 1937, they got together in California and held their first meeting to discuss forming a company, tentatively called The Engineering Service Company. They decided to concentrate on high-frequency receivers, medical equipment and the newly announced field of television.

In fact, Professor Terman from Stanford had taken a close interest in Packard and Hewlett and he helped organize jobs for both of them in California so they could support themselves until their company started making money. Together, they rented a small house on Addison Avenue in Palo Alto, California which had a garage that became their workshop. (This house and garage would later become famous as the birthplace of Silicon Valley).

In these early days, Bill Hewlett and David Packard did almost every small job they could become involved with. They found their talents complimented each other well - Hewlett had a stronger background in circuit technology whereas Packard was good at manufacturing processes.

By 1939, it actually looked like they might be successful in business together, so Hewlett and Packard signed a partnership agreement. They flipped a coin to see whose name would come first, and Hewlett-Packard was born.

‘‘From our efforts in building various devices, we’d made a little money, and in the back
of our minds was growing the notion that just maybe one of these devices could be developed into a viable product. In recognition of our progress, small as it was, Bill and I began 1939 by signing a partnership agreement. I don’t remember the exact terms of the agreement, but I know it was pretty informal. Bill advanced some money to buy some components and tools, and I contributed the equipment I brought from Schenectady. We flipped a coin to see whose name would come first in the company name. Needless to say, Bill won.”

-- David Packard

2. A Company Is Born

Hewlett-Packard’s first product turned out to be an audio oscillator designed by Bill Hewlett. It was the first low-cost machine of its type which could generate high-quality audio frequencies necessary for scientific research. They called it the Model 200A so nobody else would realize it was their company’s first product.

“Bill’s audio oscillator represented the first practical, low-cost method of generating high-quality audio frequencies needed in communications, geophysics, medicine and defense work.”

-- David Packard

When displayed at a Radio Engineer’s conference, there was a lot of interest in the Model 200A. Acting on a whim, they arbitrarily priced their product at $54.40 because they liked the sound of that price and it reminded them of the 1844 slogan used to establish the North-Eastern border of the United States in the Pacific Northwest. The only problem was it actually cost more than that amount in materials alone to build a Model 200A. Luckily, their nearest competitor’s product was priced at $400 so they had some room to maneuver. Hewlett and Packard did everything themselves on that first product from building the wood cabinet through to individually calibrating each machine. Fortunately, there was a healthy demand for the machines, with several orders coming in during their first few weeks of sales.

“When we started making the studio oscillators, we bought the cabinets but made the panels ourselves. We sawed them out of aluminum and drilled the holes. Then we’d spray paint them at home and use the kitchen oven to bake on the paint. Then I’d take the panels up to Charlie’s and engrave all the designations on the panels through the paint. Next, we calibrated the dials by setting up a frequency standard. then we marked the dial with a pencil and I’d go back up to Charlie’s and engrave those pencil lines. In the beginning, each of those oscillators was individually calibrated.”

-- David Packard

Included in the early sales for that early audio oscillator was the Walt Disney Company who were assembling equipment to make their innovative new full length cartoon feature, Fantasia. They ordered eight of Hewlett-Packard’s products.

“Through the years there has been considerable over-statement about this sale to Disney. Contrary to some views, H-P did not make a technical contribution to the production of Fantasia. Instead, we enabled Disney to buy a good product at a price considerably less than our competitor’s. It’s also been said if it wasn’t for this sale to Disney, we might have gone out of business. The truth of the matter is that with or
without the Disney sale, Bill and I were determined to move ahead with our company."  
-- David Packard

By the end of their first full year of business in 1939, Hewlett-Packard had sales of $5,369 and a profit of $1,563. This was to be a firm habit of theirs, and the company is highly unusual in that it has shown a profit every year since then.

3. The Early Days

By the end of 1939, the company had outgrown the car garage, and a small building was leased about 3 kilometers away. Bill Hewlett and David Packard plunged enthusiastically into building the company. They did everything themselves, from developing products through to writing ads, building their products through to handling the shipping and even sweeping the floors.

As with any new company, working capital for Hewlett-Packard was at a premium. To address this issue, David Packard established a line of credit of $500 with Palo Alto National Bank. That banking association would later expand to the point where the bank was providing millions of dollars in development and production funding.

The business environment in those days in the United States was rather more relaxed than today. For example, one of H-P’s competitors was General Radio, founded by Melville Eastham. Mr. Eastham actually provided a lot of good advice and help to David Packard and Bill Hewlett, even though they would be direct competitors in almost all regards. Eastham worked on the premise that it was better to have two companies taking a new technology to market than just one because that enhanced credibility from the customer’s perspective.

By the end of 1940, H-P had grown to having 10 employees, including its first secretary. However, with the entry of the United States into World War II in December 1941, Bill Hewlett was called into active duty with the Army Signal Corps, leaving David Packard to manage the business alone.

Due to the fact that H-P produced products which were applicable to the war effort, the company expanded rapidly throughout the war. In fact, by the end of the war, H-P employed in excess of 200 people and the company had an annual sales volume which was very close to $1 million.

Even at this early stage of the company’s development, Packard and Hewlett were keenly aware of the efforts being put in by their employees. To recognize this, H-P instituted an incentive program which paid everyone a bonus when the company exceeded its production targets.

While a performance based incentive program is quite common today, in 1945 it was quite a revolutionary concept. For the duration of the war, wages had been frozen. Therefore, the only way to reward people for higher productivity was the bonus scheme. Eventually, the bonus would rise to be as much as 85-percent of base wages.

Packard and Hewlett also instituted another corporate funding principle which would colour their efforts for many years to come - they insisted that H-P should not resort to any long-term borrowing. Therefore, any expenditure on the development of new
products had to be funded from reinvestment of profits. This strict disciplined approach to debt has allowed the company to weather numerous economic cycles and flourish regardless of external conditions. It also imposes an excellent discipline on the company and keeps H-P sharply focused on profitability.

“Bill and I had decided we were going to reinvest our profits and not resort to long-term borrowing. I felt very strongly about this issue, and we found we were clearly able to finance 100-percent growth per year by reinvesting our profits.”

-- David Packard

The Second World War also stimulated H-P’s Product development programs. The company began developing several useful technologies in conjunction with groups such as the Naval research Laboratory. When the war ended, H-P had acquired valuable technical knowledge which would pay handsome dividends for the company after the war.

H-P was, however, still tightly focused on electronic test and measurement equipment. With the end of the war, not only did Bill Hewlett return to work for H-P but he also hired several very competent electrical engineers he had become familiar with while working on top-secret government projects. H-P used these additional technical resources to move into the new field of microwave signal generators.

4. From Partnership to Corporation

The company was now expanding rapidly, and both men decided the original partnership agreement should be replaced with a corporate structure so other people could directly share in the company’s progress. Therefore, Hewlett-Packard was incorporated in 1947 to reflect these changes.

Throughout the late 1940s and the early 1950s, H-P continued to grow very rapidly. By 1952, H-P had a product line of more than 100 items, and sales revenue that was doubling year by year.

To ensure H-P had access to the nation’s top engineers, the company established a scholarship program at Stanford University. Under this program, H-P paid engineers to attend graduate school on full pay so long as they would agree to work for H-P on completion of their advanced degrees. In this way, H-P had first pick at the very finest students graduating each year from universities around the United States.

H-P also strengthened its ties to the university by building two new buildings in the Stanford Industrial Park situated right next to the university. This gave H-P access to the engineering and business schools based at Stanford University.

By 1957, H-P employed 1,268 staff, and the company was moving forward at an increasingly quick rate of growth. The decision was made to take H-P public, and 10-percent of the company’s ordinary shares were offered to the public in November at $16 per share.

H-P also moved around this same time to set up international sales offices in Switzerland and west Germany. (By 1994, H-P sales in Europe would account for more
than one-third of H-P’s total business. H-P now operates in more than 120 countries.)

By 1956, H-P offered more than 300 products, employed in excess of 1,200 staff and had annual sales approaching the $30 million mark. To introduce some structure into operations, the company was split into four divisions:

1. Frequency counters and related equipment
2. Microwave equipment
3. Audio & video products
4. Oscilloscopes

In a management meeting held in 1957, Bill Hewlett and David Packard introduced a set of six corporate objectives which they felt should form the basis for H-P’s future growth. These objectives were:

1. Profit.  
   To recognize that profit is the best single measure of our contribution to society and the ultimate source of our corporate strength. We should attempt to achieve the maximum possible profit consistent with our other objectives.

2. Customers.  
   To strive for continual improvement in the quality, usefulness and value of the products and services we offer to our customers.

3. Field Of Interest  
   To concentrate our efforts, continually seek new opportunities for growth but limiting our involvement to fields in which we have capability and can make a contribution.

4. Growth  
   To emphasize growth as a measure of strength and a requirement for survival.

5. Employees  
   To provide employment opportunities for HP people that include the opportunity to share in the company’s success, which they help make possible. To provide for them job security based on performance, and to provide the opportunity for personal satisfaction that comes from a sense of accomplishment in their work.

6. Organization  
   To maintain an organizational environment that fosters individual motivation, initiative and creativity, and a wide latitude of freedom in working towards established objectives and goals.

7. Citizenship  
   To meet the obligations of good citizenship by making contributions to the community and to the institutions in our society which generate the environment in which we operate.

5. Self-Funded Growth

Due to the fact that both Bill Hewlett and David Packard had grown up during the Great...
Depression of the 1930s, they were keenly aware that only those firms which had not borrowed money were able to survive serious economic downturns. Therefore, right from the outset, they insisted that H-P should not incur any long-term debt.

Therefore, H-P has always financed its growth out of earnings rather than by borrowing money. This runs counter to many business approaches which suggest some debt may be warranted, but in the case of H-P the self-funding approach had worked well.

As the number of employees has grown, the company has developed a large and substantial staff share purchase scheme. This allows employees to apply part of their salaries to purchase H-P shares at a price which is discounted to the prevailing market price. In turn, these funds can be used by the company to fund further growth.

For a technology based company such as H-P, a steady line of new products is especially important. Therefore, the company typically spends between 8- and 10-percent of all sales revenue on research and development. This may hurt the short-term profit statements, but R&D is looked upon as an investment in the company’s future growth and strength.

The pricing of new products is also a very important issue at H-P. Often, there is a temptation to introduce a new product at a price which does not produce an adequate short-term profit in the name of capturing market share and on the hope that at some stage in the future the costs will come down rapidly. However, the ideal H-P approach is to introduce new products at prices that are high but which are directly related to the value of the product’s features. That way, when aggressive competitors come into the market, H-P still has a large amount of room to move.

Another underlying value at H-P is the company attempts to make important technical contributions to the fields of science, industry and human welfare. Rather than making products which compete in established fields, the company tries to seek out new areas which incorporate some type of advancement in the state-of-the-art. Ideally, H-P strives to introduce new products which combine new technology and demonstrable marketability.

To support these concepts, David Packard and Bill Hewlett started a monthly magazine called the HP Journal. This magazine describes the new technology being developed within the company. While this information is probably useful to H-P’s competitors, the effect within the company is to stimulate additional research across a broader cross section of the company’s employees.

The key objective for H-P to become involved in any technical field is that of making a positive and worthwhile contribution. If the company can develop new products which fill a need in the marketplace while at the same time making a genuine contribution to that particular field, then H-P will commercially release that product. Otherwise, the company will hold off becoming active in any one field in particular.

6. The Computer Age Beckons

By the early 1960s, it became obvious to every company involved in scientific instruments computers would play a major role in the development of future products.
Therefore, Bill Hewlett and David Packard investigated several small computer companies with a view towards acquiring one. They even held several discussions with Digital Equipment Company which could have been acquired for around $25 million. Ultimately, however, there were some complicating matters and this strategy was not pursued any further.

By late-1964, H-P had developed its own minicomputer, named the Model 2116. Although it was originally designed simply to interface with other automatic control systems, before long H-P was selling more 2116’s as standalone computers.

Despite this, H-P was still very slow and cautious to move into the computer field. Even though the company had an opportunity to take the technical lead in this area, they still hesitated.

Part of their reluctance was based on Bill Hewlett’s advice:

“Don’t try to take a fortified hill, especially if the army on top is bigger than your own.”

Both Packard and Hewlett were aware that IBM had considerable financial and marketing resources, and any attempt to take market share away from them would be vigorously opposed. Therefore, H-P did not take advantage of this opportunity.

(Despite the fact that H-P missed out on the opportunity to totally dominate the microcomputer industry, the company’s computer business revenues are still significant. In 1964, H-P had sales of $125 million, with nothing from computer sales. By 1994, H-P’s sales in computer products would be $20 billion, about 78-percent of the company’s annual turnover.)

H-P was also reluctant to enter the computer field because they didn’t feel they were making a contribution to the state-of-the-art within the industry. It was not until much later they realized H-P could make a valuable contribution in areas such as usability, speed and reliability rather than pushing the technical frontiers.

“Today, if you do not offer PCs with a standard interface to the software suppliers whose products the user will buy, you will miss a large share of the market. We have had to learn that in today’s computer world, the contribution we can make is in ease of use, speed, reliability, and above all, affordability.

Our dedication to making a contribution, coupled with our commitment to understanding the potential needs of customers, served us well in allowing HP to adapt to both changing technologies and changing customer needs.”

-- David Packard

7. Listening to Customers

“The fundamental basis for success in the operation of Hewlett-Packard is the job we do in satisfying the needs of our customers. We encourage every person in our organization to think continually about how his or her activities relate to the central purpose of serving our customers.”

-- David Packard
Customer satisfaction at H-P begins with the generation of new ideas as the basis for the development of new products which will meet the future needs of customers. That requires the new products to be developed quickly and efficiently.

In addition to providing a good product, H-P also concentrates on providing high levels of back-up service. In fact, H-P sales engineers are actively encouraged to take the customer’s side in any disputes with the company.

“We don’t want you blindly agreeing with us. We want you to stick up for the customer. After all, we’re not selling hardware; we’re selling solutions to customer problems.”

-- Noel Eldred, Vice-President of Marketing

Until the 1980s, H-P had very little experience in consumer markets. That rapidly changed, however, when H-P introduced its first LaserJet printer in 1984.

The LaserJet printer was an interesting product for H-P because it used technology (the printer engine) licensed from Canon rather than being developed in-house at H-P. By using that technology, however, H-P was able to develop a new product line for small, fast, flexible and inexpensive laser printers.

The first LaserJet printer sold for $3,495 in 1984. With each successive new model developed, H-P’s goal has always been to offer more features for less money. This objective reflected a fact that H-P had learnt with calculators.

For many years, H-P had always tried to offer increasingly sophisticated new models of calculators while its competitors were offering calculators with basic features at lower prices. Before long, H-P’s market share fell very rapidly. The company was determined not to do the same with laser printers.

Therefore, the LaserJet II introduced in 1987 was priced $1,000 less than its predecessor despite a number of key improvements. The LaserJet III introduced in 1990 again continued this trend, being priced at $2,395. The result is that these printers have been highly successful and have become entire product categories in their own right.

“The essence of customer satisfaction at Hewlett-Packard is our commitment to quality, a commitment that begins in our laboratories and extends into every phase of our operations.

Over the years we have spent a good deal of time looking at how we could improve quality. One method we found very effective was to lay out our production lines so the area devoted to the final testing of a product was very close to the final assembly area. If the test crew detected any problem in the finished product, they could immediately and directly tell the assembly people without having to go through complicated procedures.

This was very much like what has come to be known as a "quality circle" because here were people working closely together with effective, informal communication. We found that over time many good ideas emerged from this informal exchange among our test and assembly people, and this helped to keep an emphasis on quality and productivity.”

-- David Packard
8. Trusting People

For an organization to maximize its efficiency and success:

1. The most capable people available must be selected for each assignment, especially in technical fields where the rate of progress is rapid.

2. Every person in the company must be constantly on the lookout for new and more effective ways to do their work.

3. People in management positions must be enthusiastic and be capable of fostering enthusiasm amongst their staff members.

H-P is formed on the foundation that people want to do a good job and enjoy their work at the company. In addition, the company tries to create an environment in which achievements are recognized.

The company is the complete opposite of a military type of operation. In a military style company, the person at the top issues orders which are specific and detailed, and subordinates are expected to follow those instructions unquestioningly.

By contrast, H-P fosters a form of participatory management - staff members are granted considerable freedom and flexibility in working towards goals which are shared by the entire group. Teamwork and using the input from every person in the organization are the predominant traits of this approach to overcoming challenges.

In the high tech industrial field, there is sometimes a tendency to work a "hire and fire" strategy - that is, take on large number of people whenever a big project is under way and then let them go at the completion of that particular project.

H-P, by contrast, wanted to be in business for the long haul and to build a company around a stable and dedicated workforce. Therefore, to attract and retain the best people they could find, David Packard and Bill Hewlett developed a profit sharing program that every employee was eligible to participate in, not just the senior management.

In addition, the company has also established a medical insurance program which covers all employees and their families.

Another tradition at H-P is the annual picnic. Every branch of the company has a picnic day once a year at which the senior executives cook and serve the food to the rest of the employees.

H-P has also invested in recreational facilities which staff members are entitled to use during their vacations. For example, in Colorado, the company purchased some land next to Estes Park. In Massachusetts, the company has a seashore property. In Scotland, H-P owns a small lake. In Southern Germany, the company has purchase a small ski field.

“The underlying principle of H-P’s personnel policies became the concept of sharing - sharing the responsibilities for defining and meeting goals, sharing in company
ownership through stock purchase plans, sharing in profits, sharing the opportunities for personal and professional development, and even sharing the burdens created by occasional downturns in business.”

-- David Packard

The profit sharing program is an excellent example of this philosophy. Employees with more than six months of service are eligible for profit sharing, and each year receive amounts calculated on the company’s earnings before tax. Over the years, H-P has always shown a profit, and the payout to employees has been as high as 9.9-percent of base salary. Even in low growth years, employees have received payouts equivalent to 4.1-percent of their base salaries.

One interesting example of the company philosophy occurred during a business downturn in 1970. Orders were very slow, and it looked like H-P would be forced to layoff 10-percent of its workers. Instead of doing that, however, everyone in the entire company went onto a schedule of working nine days out of every two weeks and taking a 10-percent cut in pay. That way, everyone shared the burden of the recession equally, and when orders were restored to their previous level, the company was in a position to move everyone back on to their regular schedules.

The company also tries to address downturns by transferring production from one area to another when required. In addition, H-P has numerous corporate-sponsored educational programs which are designed to assist staff members to increase their skills and move into increasingly more complex technical fields. (H-P actually spends around $200 million each year in this area alone).

“‘So going all the way back to the beginning of the company, Bill and I have placed great faith and trust in HP people. We expect them to be open and honest in their dealings with others, and we trust they will readily accept responsibility.’”

-- David Packard

HP is unusual in two distinct areas:
1. The company always makes its storerooms and parts bins open to employees so they can use the equipment to work on job-related projects at home or skill-enhancing hobbies. This is a symbol of the company’s trust in its employees, as well as allowing people to be creative outside normal work hours.

2. The company also allows all employees to set their own work hours. An individual employee is free to choose whatever work hours they prefer without any direction from the company’s management.

3. H-P actively welcomes back any past employees who have established a good work record.

“‘Some people have left HP and have successfully started their own companies. There are at least a dozen of these entrepreneurs and their companies now employ more than forty thousand people. Are we upset that they left us? On the contrary, Bill and I understand and respect their entrepreneurial spirit, and we are pleased and proud that they once worked with us and have done so well. We’re also flattered that in building their companies, they have adopted many of the management principles and practices embodied in the HP Way.’”

-- David Packard
9. Growing The Company

Bill Hewlett and David Packard never gave any thought to the organizational structure of the company until the late-1950s. In the early days, the company operated from just one location and everything was fairly logically organized along obvious lines. However, with the steady growth of H-P, it became clear there was a need to develop a decentralized strategy.

In 1957, the company was split into the four divisions mentioned earlier. In addition, other divisions were added as the company became established in foreign locations or acquired separate business units. By the mid-1960s, H-P had more than a dozen operating divisions.

Each division was given great freedom in working towards goals and objectives. This was a conscious effort to enable decisions to be made as close as possible to the point at which they would have the greatest impact. Each division was also intended to foster creativity and allow initiative to come to the fore.

In the 1960s, H-P formed two affiliates - HP Associates to concentrate on solid-state research and development and HP Laboratories to focus on new technologies and product diversification.

Additionally, H-P started to acquire other companies with good technology during the 1960s. Frequently, this was accomplished through an exchange of stock. This sometimes caused problems trying to blend together the cultures of the company being acquired and H-P itself.

During the 1960s, H-P also moved to establish its own sales and marketing organization. The company accomplished that by acquiring most of the independent sales organizations which had handles H-P products since the very early days. That way, the H-P was able to quickly establish a large and professional sales organization with personnel who were well experienced in handling the company's products.

As the company continued to grow, some of these divisions became quite large - employing up to 1,500 people. Therefore, the divisions would be split again along established product lines.

The rapidly increasing number of divisions meant that by the late 1960s, H-P was forced to adopt a group structure in which a group manager was responsible for the overall operations and financial performance of a number of divisions. By the late 1990s, H-P would have 65 divisions organized into 13 product groups.

However, not all management changes at H-P have gone smoothly. For example, when H-P entered the computer business, there were a whole new set of management problems. One such challenge involved computer software - H-P had no experience in managing the development of computer software. The other challenge lay in the fact computers require a number of elements to be work together.

H-P's first efforts at responding to these challenges were dismal failures. A complicated and inefficient bureaucracy developed around an attempt to coordinate the work of a number of company divisions. Decision by committee evolved with the result that time to
make decisions increased appreciably.

To solve these problems, H-P hired a new Chief Executive Officer named Lew Platt. The bureaucracy was disbanded, and computer operating units were given greater freedom to create their own plans and make their own decisions. The end result was H-P once again became flexible and agile, which was exactly what was required to succeed in the very fast moving microcomputer field.

“Over the years, Bill Hewlett and I had speculated many times about the optimum size of a company. We did not believe that growth was important for its own sake. However, continuous growth was essential for us to achieve our other objectives and to remain competitive. Since we participate in fields of advanced and rapidly changing technologies, to remain static is to lose ground. Also, we depended on attracting high-calibre people to the company, people wanting to align their careers only with a company that offered ample opportunities for personal growth and progress.”
-- David Packard

“Although we minimize corporate direction at H-P, we consider ourselves one single company, with the flexibility of a small company and the strengths of a large one - the ability to draw on corporate resources and services; shared standards, values and culture; common goals and objectives; and a single worldwide identity.”
-- David Packard

10. Managing the Company

The management style of H-P is described as embodying a philosophy of decentralization and management by objective. Under this style of management, overall objectives are clearly stated and agreed upon but staff are given total flexibility as to how those objectives are to be met.

Running hand in hand with management by objectives, H-P managers also practice MBWA - “management by walking around”. Specifically, managers are expected to get out of their office and become personally involved in every project undertaken by the company. From this hands on approach, they can develop a feel for the detail making up the larger picture.

Another management philosophy practiced at H-P is an “open door policy”. People within the company are free to express their ideas, opinions, problems and concerns with an appropriate manager.

Every person at H-P (including the CEO) works in an open plan doorless office. This has some disadvantages, but over the years, the benefits of ready accessibility have far outweighed the disadvantages involved. Communication flows readily both upwards and downwards at H-P.

The open door policy is reinforced by the fact that everyone in the company uses first names in addressing each other. This fosters an informal atmosphere in which each person can operate as efficiently as possible. Similarly, H-P has charts which show a theoretical company hierarchy, but everyone realizes that to get a job done they are free to seek information from the most likely source, not just the person above them on the
chart.

To supplement all these programs, H-P regularly evaluates the performance of each individual. Information is also made available on how each division or department is performing, so every employee is fully aware of how they are performing. The objective of all these programs is to encourage cooperation and teamwork by building an atmosphere of trust and understanding among employees.

11. Responsibility to Society

Hewlett-Packard takes seriously its responsibility to be a good corporate citizen. This extends well beyond simply making a good profit for its shareholders and into areas such as contributing to the welfare of society as a whole. It also extends beyond the United States of America and into every community in which the company operates.

The company tries to do several different things in this area:
1. All H-P staff members are actively encouraged to participate in projects and organizations which are designed to provide benefits for their local communities. For example, David Packard served for six years as a trustee on the Board of Directors of Stanford University. Bill Hewlett served as President of the Stanford Medical Centre and Hospital for four years. Many other senior H-P people have set a similar example of public service.

2. Whenever the company selects a location for new plants or other facilities, some consideration is given to the effect on the community. Specifically, sites are chosen which are environmentally sound and which will represent attractive places for people to live and work. The company also ideally seeks communities which welcome the new facilities as providing employment opportunities. If a site can be found which has this type of community enthusiasm, it is far better for H-P than locating somewhere the facility will simply be tolerated as a necessary evil.

In addition, H-P also places an emphasis on public service opportunities. For example, in 1968, David Packard was invited to serve as the Deputy Secretary of Defense in the Nixon cabinet. As part of the requirements to accept this office, he would be required to donate to charity any dividends payable from his share holding in H-P, as well as any increase in principal for his H-P stock which occurred while in office.

Packard accepted the assignment and served from December 1968 to December 1971. During those three years, he gave to charity more than $20 million.

In 1972, David Packard resumed his role at H-P as Chairman of the Board of Directors, while Bill Hewlett served as Chief Executive. The spirit of public service continues to exist in the company. For example, in 1994 alone, H-P donated more than $64 million in grants to charitable organizations.

“‘There are countless ways in which a business enterprise, as a corporate body and through the individual efforts of its people, can make important contributions to its community and to the larger society in which it operates. The betterment of our society is not a job to be left to a few; it is a responsibility to be shared by all.’

-- David Packard
12. Reflections

“When I think of the phenomenal growth of the electronics industry over the last fifty years, I realize how fortunate Bill Hewlett and I were to be in on the ground floor. During this century, science became the dominating factor in the progress of the world.

In the twentieth century we have experienced dizzying progress, most of it founded on scientific principles established over many years in the past. New scientific discoveries have now unleashed the whole new field of genetic engineering, offering a whole new world of scientific opportunity. Everywhere I look, I see the potential for growth, for discovery far greater than anything we have seen in the twentieth century.

Exponential growth is based on the principle that the state of change is proportional to the level of effort expended. The level of effort will be far greater in the twenty-first century than it has been in the twentieth century.

Hewlett-Packard Company is a good case in point. It took forty years for the company Bill Hewlett and I started in 1939 to reach one billion dollars in annual sales and a major part of that was from inflation. In the 1994 fiscal year that ended last October, we began the year with twenty billion dollars in worldwide sales and added five billion dollars by that year’s end. This occurred with essentially no inflation. Other technology companies have shown similar growth.

Just as it has in the past, our growth in the future will come from new products. Beginning in 1939, we generated at least six dollars of profit, spread over five or six years, for every dollar spent on new product development. By new products, I mean products that make real contributions to technology, not products that copy what someone else has done. This must be our standard in the future just as it has been in the past.

Recently, there has been much discussion about developing an information superhighway. This can be accomplished with products and technology already in place. the twenty-first century, however, will be much more than an information age. It will be an age in which many new kinds of new products contribute to a better life for all the people of the world. Our company will work hard to contribute its share.”

-- David Packard

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