

PERSPECTIVES ON HP

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General Managers' Meeting

January 17, 1989 Pebble Beach, CA.

Ladies and Gentlemen, I think this has been a very good meeting and I want you to know that I have been very impressed with the specific plans and programs that have been presented here. I have also been very encouraged by the enthusiasm and the optimism that have been expressed in these presentations and, also, by the enthusiasm and optimism that has been evidenced in the many individual conversations which have also been an important part of this meeting.

In looking at the overall situation, I do have a little concern that our company is developing some of the ?! characteristics of a bureaucracy. I see quite a bit of evidence in our organization of topside people telling all of you how to do your job. Perhaps you do not need all the advice you are receiving. I think that the information systems that Lloyd Taylor just described may be a way of getting around some of the micro management from the top, which is a basic characteristic of nearly every bureaucracy. I hate to see these signs of
* bureaucracy developing in our company.

Another characteristic of bureaucracy is that people begin to believe in their own propaganda. I see a little bit of that going on here, but all in all I am very encouraged about the progress.

This morning I wanted to talk to you about a broad and an important subject. I will begin with some observations about what I think is going on in the world today. I want to point out how our company is eminently involved in these worldwide trends. To do this I will go back and outline very briefly what has happened during the 20th century.

As you know, this century has been characterized by two major wars with an immense toll in lives and resources. The worldwide relationship among the nations has been dominated since World War II by the Cold War confrontation of the United States and the Soviet Union. The countries on both sides of the Iron Curtain have devoted major resources toward the build-up of military forces and military equipment. The fear of nuclear war has been a dominant concern to many, both the leaders and the people of all of the major nations. Indeed, I think there were times when we were very close to an all-out nuclear war, but fortunately reason prevailed.

I think we are now at the point -- and it has really been the direct result of this build-up of nuclear forces -- that the leaders of both the United States and the Soviet Union and their major allies clearly realize that any major nuclear exchange would destroy a large part of the industrial world of both sides and a large portion of the people and resources of countries of the civilized world. I think because of this we are all at a point where there is virtually no probability of a worldwide nuclear war. I say this even though there is a chance of some kind of an accident. I think there are communication systems set up that are very likely to prevent any kind of a nuclear accident from getting out of hand.

The development and deployment of conventional, non-nuclear forces around the world have also been driven during the latter part of this century by the Cold War hysteria, particularly on the NATO front. I think here again, the probability of a major conventional force thrust across the NATO front is very low. The cost would be far too high for any potential benefit.

I think we are seeing a major change going on around the world. It is evident from the developments in China, where there is a move towards conservatism, as well as in many other countries of the world. More recently we have seen the activities of Gorbachev in trying to make a major change in the Soviet Union.

Now, I believe that these changes that are occurring are not the result of the charismatic leadership of Ronald Reagan or Chairman Gorbachev, or Margaret Thatcher, or anyone else. I think, however, the changes are driven by an underlying development that is extremely important.

Communism has been in force in the U.S.S.R. for a large part of this century. It has also been in place in Mainland China, and in a number of smaller countries for a shorter period of time. What is happening on a worldwide basis is that Communism has not been able to deliver what it promised to the people of those countries where it has been established, and it has not been a threat to the free enterprise market economy that it promised to be.

People all around the world who have been living under communism are finally coming to realize this fact, and they want a change. That is an underlying force, I think, that is extremely important. The change in China came about fairly rapidly shortly after President Nixon opened the door there. I think that it occurred there more easily and rapidly than it will in the Soviet Union, for two reasons. The first is that Communism had not been in place in the People's Republic of China for as long a period of time. Secondly, the Chinese people are basically, I think, more independent and entrepreneurial in their spirit.

There are many examples of success in countries on the Western border of the Pacific Ocean -- Japan, of course, Taiwan, Korea, Singapore, Hong Kong and all those other countries -- which have made a commitment to a free-enterprise economy. These have been a shining example of a free-enterprise economy. If the performance of these countries is compared with those countries which have opted for socialism or communism, I think the message is quite clear.

Now here in the United States, we have had President Reagan with a conservative philosophy that has made rather substantial changes during the past years and, in England, Margaret Thatcher. So in my humble opinion I think what we are seeing is a watershed change in the world -- a change that is going to make the 21st century different and in many ways better than the 20th century.

Now I don't think this trend will be reversible, but it may take several decades of the next century for its full impact to be realized. It does not imply, by any means, that there will be no conflict in the world. People have been fighting with each other from the beginning of recorded history and probably for a long time before that. Today we see in the Middle East the same people fighting with each other, and for essentially the same causes, who were fighting each other 2,000 years ago.

I am sure that there will be continuing conflict and terrorism which will be difficult to deal with. I think that this simply says that human nature has not changed in any significant way, and it is not likely to change. But, I think that the major change that has come about is that we're not likely to have another war of world dimensions, and this will then provide an environment of many more opportunities in the next century.

Now I think it is very important to recognize that our company has had a major influence on these very important trends that I have outlined for you. In the first place, the very technology that we have been involved with has given everyone in the world a better understanding about what everyone else is doing, what they are thinking, what they hope for, and how they see their future.

In addition, our company has clearly been a visible symbol of opportunity in a free-enterprise economy. You may or may not know that President Reagan cited the example of Hewlett-Packard Company before a group of students in Moscow. He explained to them the great success we have had with our company. He emphasized that this could not have been done under communism. Certainly our example as a successful company, doing what we have been doing, has been a major factor in influencing the thinking of many people all over the world.

I think, without any question, this change in world outlook represents a watershed change. It really gives us a larger responsibility as a company. It goes beyond doing the things that we have talked about in this meeting to meet our short-term objectives, our quotas, and so forth. I think it really implies that our company has a responsibility to stand tall and play it straight as an outstanding leader in every way and in every society where we participate.

Now, there are going to be some negative trends in this process, some of them were mentioned to you by Bob Kirkwood today, particularly those relating to trade. I think without any question these trends which I have described are going to reduce the barriers among nations. We can see this by the example of the trade agreement with Canada and the development of the common market in Europe. But, also, there are going to be very strong forces at work in every nation to protect its own commercial interests, its own companies and employment levels. Fundamentally, I am sure you all know every country would like to export enough of its own product to pay for what it needs to import. That is a fact that we face in almost every country where we do business and it is going to continue to be an important factor.

I think HP has been able to do well in the international market because we've had products that have been needed by other countries, and many countries have been willing to overlook some of these basic economic factors in order to allow us to provide them with our products. That trend, I think, is going to be less likely in the future. Our policy in the past has been to try to act like a good citizen of every country in which we have a presence.

I think that we're going to have a more extensive responsibility to not only act like a good citizen, but in every sense to be a real citizen, and to act like we are really a part of that country. I think we're well structured to do this and I am sure that those of you who are involved in our international operations understand this responsibility. We all, of course, have to take advantage of the availability of low-cost labor if we're going to be competitive with other international companies where we operate.

But I think we must do more, as we've been trying to do in Brazil and Mexico and in many of the other countries where we operate. That is to say that we must try to make a contribution to the development of their economy in ways that we are able to do so. I think that's going to be a very desirable policy to continue.

Now, a word or two about the two big areas that are not yet important markets for us. The first is mainland China, and I think we already have a good start there. It's going to take a long time before China develops into an important market for us, but it clearly will be a very important market some day. I think our continued presence there must be an essential part of our overall plan for the future.

As you know we were involved to some extent in the Soviet Union, and I think it is going to be desirable for us to get back there again, sooner or later. I don't see any great urgency in doing this, because it is not clear yet how firmly the Gorbachev leadership is established and whether or not it is going to continue without a setback. As it becomes clearer, as I think it will, that these trends are for real and are going to be permanent, then it will be important for us to establish a presence in the Soviet Union because that is potentially a large market. We are going to have to enter that market cautiously and carefully and not expect it to be one of great value in a short period of time.

In summary, I think we're indeed facing a watershed change around the world, and I think this is a very optimistic situation for our company. I think we're at the place, at the end of our first 50 years, that we clearly have a much larger and a much more important challenge and a much more important opportunity than Bill and I had at the beginning 50 years ago. Now it's important for us to build on our strengths and I sense that you all recognize this from the presentations that you've made.

It is important to recognize that we don't bat a thousand and we have some weaknesses that we need to continually address and shore up. I think a very good job has been done in the past 10 years to greatly strengthen our marketing capability and to get ahead of the power curve in computers and in data products capability. I think we're not at ^{that} ~~the~~ point ^{yet} ~~where~~ we might work toward a little better balance among technology, marketing and manufacturing. I sense that some of us felt that way from the reports that you have made. I think that's a balance that should be maintained and preserved and emphasized in the future.

It's clear from the financial reports over the last 10 years that our operating profit has gone down. In 1979 it was 18%; it's gone down to 11% ten years later in 1988. This is clearly an area where we have not done as well as we should have. I was very pleased to see that Dean Morton reported that the goal for the computer business next year was to increase the operating profit by 50%. That looked to me like a big challenge until I realized that to go from 1% to 1-1/2% is a lot easier than to go from 10% to 15%. In any case, good luck. You're going in the right direction.

Now it seemed to me very clear in the reports that were presented that those in technology have had the best performance. Medical products, analytical products, electronic measuring products -- they have dominant market positions because they have continued to maintain technological leadership. They have combined this with good marketing capability and good overall management capability.

I think the Component activity deserves special mention because here clearly we have a very important lead in technology in the light-emitting diode field. I'd like to remind you that this capability is something we started in the mid 1960's and a lot of people thought it would not come to anything. We insisted that it be continued, and I think that our position in light-emitting diodes is probably as strong as anyone in the country, perhaps as anyone in the world, simply because we did some basic research very early on. We continued that research and we are out in front because of our fundamental technology. We can now do some things first and some things better than anyone else.

We had a good start in fiber optics, but I've come to realize that we've fallen behind in that area. I started a research foundation here in the Monterey Bay to explore the depths of the Monterey Canyons with unmanned, remotely operated vehicles, and we wanted to control these vehicles through light fibers and to bring back the imaging information through light fibers. I'd hoped that we'd be able to find Hewlett-Packard products to do all of these things, and it turns out that we could not.

I think that this is an area which has immense potential -- not only in those things that have been talked about, communications in general, communication among computers and localized situations, but there are some other areas of great potential. For example, in the future, aircraft design is going to make wide use of composite materials. One thing I'm sure that's going to develop is that fiber-optics will be interwoven through those composite materials so that they will be able to monitor the strength and characteristics of those materials, detect any changes and provide a warning as to when important changes occur. Fiber optics have a tremendous potential in the measurement business. I think here is a field where we could well devote some more basic research and development.

I realize that the Spectrum program has taken a large commitment of resources for development over the few years, but from Joel Birnbaum's report and from the other reports that I get, it seems to me that program has been a great success and is going to be a very important pillar of strength in our growth for the future. Now in this field, as you all know very well, hard work and continuing strong effort in research and development will be needed in the computer field, both in hardware and software. What I'm suggesting is that we might look toward a little better balance than we've had in this past 10 years.

There was a clear and strong theme through all the presentations in this meeting that people are a very important asset of our company. I think the report you heard this morning on our personnel programs was well done. Bill and I have * received an increasing number of letters from employees concerned about how they have been treated. A good many of these letters are the result of lack of good communication, and I think Art Dauer has done a good job in getting on top of that.

There are still some cases where I think we should have given a little more attention to the situation of the individual employee. It seems to me that the one simple requirement of the HP way is just the Golden Rule. Every employee should do unto * every other employee as he would have done unto him. I suggest you work on the Golden Rule principle wherever you deal with a personnel situation. Put yourself in the other fellow's shoes and think about what should be done. I think that's probably the best test of all and you ought to apply that test in whatever you're doing.

I think that there were some cases in these letters from employees that indicated we may have put a little too much effort * on the bottom line. Looking at the fact that we had in excess of \$800 million of profit after taxes last year, a few dollars more spent in preserving the HP way might have been a very good long-term investment for the company.

In summary, I again want to say that I'm very well impressed with what I've heard at this meeting, and I want to congratulate you all on a job well done during these last 10 years. I want to encourage you to keep the investment in basic research and development up, keep the investment in preserving the HP Way, building teamwork, and in making a contribution in whatever we do. Increasing the bottom line with tax benefits, stock buybacks, or other financial shenanigan really does no credit to the traditions of our company.

We built this company on the basis of making a contribution, and profit is the best measure of the contribution that we make. I think if we continue our dedication to those principles that have carried us through these first 50 years, we will be assured of our continuing success over the next 50 years. I'm sure I speak for Bill as well as myself, in saying we are very very proud of what you're doing and we expect you to do an even better job in the future.

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