Lessons from Hewlett-Packard's massive job cuts

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This column began when I tried to find the answer to what I thought would be a simple question: How many job cuts has Hewlett-Packard had over the past decade?

The answer shocked me:

75,505.

That includes people who were fired or took early retirement. Despite the cuts, HP's workforce has tripled in size as the company hired people in new areas and bought companies such as Compaq and EDS.

When their companies stumble as HP did in the 1990s most CEOs generally use only two strategies to fix things: fire lots of people, or buy another company. Beginning with the arrival of Carly Fiorina in 1999, and continuing under her successor, Mark Hurd, HP has undertaken a staggering transformation, as it pursued both strategies with a vengeance.

An HP spokesman responded with an official statement that said the number of employees the company has added exceeds the population of Reno, Nev., and said, "Like every company, we are constantly evaluating ways to make our business more efficient and productive, which includes making sure that we have the right workforce that best addresses our customers' needs."

And to be fair, the company has thrived over this period of time, delivered results for shareholders, gainfully employed hundreds of thousands of people, successfully handled a series of mergers, and emerged as the world's largest technology company by revenue.

So why do I find HP's job cutting so extraordinary?

First, let's start with some context. To find job-cut numbers of this magnitude, you have to look to the automotive or airline industries. General Motors, for instance, has announced 195,000 jobs cut since 2001, according to outplacement firm Challenger Grey & Christmas, and Delta Air Lines announced cuts of 51,154.

But when we talk about those industries, we talk about failure. As they dance in and out of bankruptcy and receive government intervention to stay afloat, we wonder whether they will collapse completely.

By comparison, HP is a fairly healthy company. Yes, it had lost market leadership in areas like personal computers before Fiorina arrived. But during this decade of massive restructuring, the company failed to turn an annual profit only once.

Along the way, HP announced cuts for three reasons: to cut costs, to "rebalance" the workforce and to reduce head count after mergers as it eliminated duplicative operations. The biggest of those mergers were Compaq in 2002 and EDS in 2008. And HP still plans to cut another 8,600 employees by the end of its fiscal year in October. When all is said and done, HP will have trimmed almost as many employees (84,000) as it employed as recently as the year 2000 (88,000).

A closer look at the Compaq and EDS mergers also offers insight into why companies cut jobs after an acquisition. It isn't simply the desire to reduce overlap from the merged work forces, although that can seem compelling. Such deals also allow for attractive accounting terms that reduce the impact that layoffs might otherwise have on profits.

Look at the EDS deal, for instance. Normally, the cost of job cuts comes out of a company's bottom line for the year. But when HP acquired EDS, it counted the job cuts as part of the price of the acquisition. That changed the accounting treatment and allowed HP to deduct the costs from profits over several years.

How effective was HP's job-cutting strategy for its finances? The company did not give a specific figure on how much it has saved from the cuts, except to claim billions in annual savings. At the same time, it has paid out $5.05 billion in severance to the workers who were cut. I understand the need for a company to be profitable, but I wonder if part of that severance money could have been used instead to retrain some of the workers subject to losing their jobs.

There is also the social cost of all these job cuts, though these are also difficult to pinpoint since we don't know where in the world these job cuts occurred. But in the U.S., we know these people would collect unemployment insurance for several months from funds paid by payroll taxes. And in our own state, the fund to pay that money is in trouble. Last year, the Employment Development Department announced that California's unemployment insurance fund could be $17.8 billion in debt by the end of this year.

Since HP would not provide these layoff figures, I calculated them myself from filings the company made with the Securities and Exchange Commission. Believe me, the information was not easy to find.

The bottom line of HP's reinvention is this: HP is No. 1 in PC sales. Its annual profit has more than doubled since 2000. And its stock is up from $39.71 per share in November 2000 to $48.62 this week, or about 22 percent. The Dow Jones industrial average is down about 7 percent during that same stretch.

So whatever HP's job-cutting teaches us about the increasingly cold realities of the workplace, we can be sure what it's teaching future generations of business leaders: Job cuts work.

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