

Memorandum

To: Carly Fiorina
CEO, Hewlett-Packard

From:

Date: 15 October 2003

Re: Revising Hewlett-Packard's "Standards of Business Conduct" Ethics Policy

As part of the new employee orientation program, I recently had the opportunity to review Hewlett-Packard's business ethics policy, "Standards of Business Conduct". This policy manual provides a solid ethical framework for conducting business transactions at Hewlett-Packard. This focus on business transactions is not surprising, since the policy was built in the early years of the company, and based on Dave Packard's writings on conducting business with integrity. However, the policy manual as it stands today leaves out some major areas of ethical concern, especially in the areas of environmental responsibility, dealing with outside suppliers of labor services, and HP worker welfare. It is time to revise "Standards of Business Conduct".

Ethical Challenges Confronting Hewlett-Packard

There is good reason for updating Hewlett-Packard's ethics policies now. The company is facing a number of significant challenges that will impact the way we do business, as much as any of the "transactional" items covered in the current manual:

- ❖ Tough new environmental legislation has been passed in Europe, requiring companies to design products for reusability, and to take back for recycling those products that can't be reused. This legislation will require major shifts in the way we do business, especially in the areas of laser and inkjet printing supplies.
- ❖ With the exception of inkjet printer cartridges, HP uses contract manufacturers to produce all products bearing the HP name. Many of these businesses are located in developing countries, where worker rights abuses have been occurring on a regular basis. Even the mere association of a business with an unethical contract manufacturer can hurt shareholder value, and the bottom line, as Nike found in its misfortunes in dealing with contract manufacturers.
- ❖ The merger of HP and Compaq created efficiencies that have allowed the combined businesses to do better financially than either could have done alone, but this efficiency came at a significant price. Many long-time HP and Compaq employees were let go as part of the post-merger "workforce reduction". This has resulted in a loss of goodwill in communities where HP is a major employer, and has been a real blow to the morale of the employees left behind.

An updated ethics policy manual would provide guidance to the company as it addresses these new challenges. In addition, it would demonstrate to shareholders, governments, and the general public where HP stands on these vitally important issues.

Knowing that HP has a strong tradition as a highly ethical company, I conducted a thorough search of HP's website, and found that there are indeed policies in place that address these areas of concern. Additionally, HP's participation in the Global Reporting Initiative has allowed the company to further document its commitment to these ethics policies. However, the policies and reports are somewhat difficult to find, and don't seem to carry the same weight as policies included under the official "Standards of Business Conduct" heading. It would be to HP's benefit to consolidate these policies under a revised "Standards of Business Conduct" manual.

What Hewlett-Packard's Competition is Doing

It is helpful to look at what HP's competitors are doing in order to see the benefit of updating "Standards of Business Conduct". HP's corporate motto is "Innovate". It would be a shame to allow our competitors to beat us to the draw in providing a clear and complete ethics policy.

Dell Computer

Dell has published an ethics manual called "Code of Conduct: Winning with Integrity". It is very similar to HP's ethics manual, with a major exception. Dell includes in its manual policies on the environment, human rights, contracting with outside manufacturers, and worker welfare.

A review of Dell's policy however shows that the company's commitment to these issues is shallow at best. For example, in its statement on environmental policy, Dell says "Our Interest in the environment goes beyond the mandates of governmental regulation," but later continues to say, "We will continuously improve the environmental friendliness of our products and procedures so that they meet or exceed industry standards and applicable regulations". Which is it – do they go beyond the mandates, or merely meet them? Dell has left a lot of room to maneuver.

IBM

IBM's business ethics manual is titled, "Business Conduct Guidelines". By title, one would expect it to be every bit as transaction-focused as HP's manual. However, IBM includes a number of other important ethical areas in this set of policies.

For example, in its manual IBM states, "Not only will we comply with all environmental laws, but if there is no law or if the law does not protect the environment, we will set and adhere to stringent standards of our own". A very strong statement, but it should be noted that these standards are not included in IBM's manual.

Sun Microsystems

Sun also has a “Standards of Business Conduct” booklet. However, Sun goes significantly farther than HP and IBM in inclusion of areas of broad ethical concern in its policy manual. The policies include worker welfare, environment, and conducting business with outside suppliers.

While its coverage is broad, Sun also fails to fully develop these areas of concern into anything that could be called a robust policy. On the environment Sun states, “Sun is committed to complying with applicable laws and regulations related to protecting our environment.”

It should also be noted that none of these major competitors participate in the Global Reporting Initiative, nor do they offer any locatable corporate sustainability reports on their respective websites. Granted, the policies of these competitors are somewhat weak and noncommittal, they each take their ethics policy manual content farther than HP does. There is clearly the opportunity for HP to achieve competitive advantage by striking now with a strong, clear statement of its policies regarding the environment, dealing with providers of outside labor, and employee welfare. HP’s competitors are currently beating HP in the area of visibility. Hewlett-Packard can win by backing the visibility up with hard policies.

What Hewlett-Packard Should Do Now

Hewlett-Packard should review its entire set of ethics policies and consolidate them in one document. The best and most logical choice is to include them in a revised “Standards of Business Conduct” manual. The most important policies to include now are those that have direct impact on the challenges facing HP.

The Environment

In its 2003 “Global Citizenship Report,” filed with the Global Reporting Initiative, HP outlines a very specific “Environmental Health and Safety” policy. This policy would be an excellent choice for inclusion in the “Standards of Business Conduct”. The following statement is succinct, and summarizes HP’s commitment to running an environmentally ethical business:

“Our goals are to provide products and services that are environmentally sound throughout their lifecycles, conduct our operations in an environmentally responsible manner, and create health and safety practices and work environments that enable HP employees to work injury-free.”

It could be made stronger by including commitments to environmental sustainability, similar to ideas you express in your letter of introduction at the beginning of the report. It should also include the specific environmental policies outlined in the chapter on managing environmental impacts.

Dealing With Outside Suppliers

Hewlett-Packard has strong policies in this area, including a strict “HP Supplier Code of Conduct”. This code has already been implemented with HP’s top 40 suppliers, and implementation continues with new suppliers, and others as their contracts expire. The stated priority for 2004 is to focus on suppliers that pose a significant risk to HP, for example through chemical or labor-intensive manufacturing, or by location in developing countries.

One suggestion for improving this policy would be to go beyond language on “adhering to national and other applicable laws and regulations.” This leaves “wiggle” room for HP’s suppliers, as some may be located in nations with more lax laws than others. It is also moot, since the document goes on to outline very specific expectations HP has for its suppliers in the areas of environmental practices, operations, occupational health and safety, labor practices, and management systems.

Hewlett-Packard Employee Welfare

This is a difficult area. Hewlett-Packard has long had a reputation as a company that does not practice layoffs. The recent rounds of massive layoffs have sullied this reputation, left bad will in the communities in which HP operates, and have negatively impacted the morale of remaining employees. This is an area where HP needs to reclaim its image as an ethical employer.

A good beginning for a policy on employee welfare is the following statement, found on HP’s “Corporate Objectives” website:

Employee Commitment: To help HP employees share in the company's success that they make possible; to provide people with employment opportunities based on performance; to create with them a safe, exciting and inclusive work environment that values their diversity and recognizes individual contributions; and to help them gain a sense of satisfaction and accomplishment from their work.

Underlying beliefs supporting this objective:

- HP's performance starts with motivated employees; their loyalty is key.
- We trust our employees to do the right thing and to make a difference.
- Everyone has something to contribute: It's not about title, level or tenure.
- An exciting, stimulating work environment is critical to invention.
- A diverse workforce gives us a competitive advantage.
- Employees are responsible for lifelong learning

The policy should also cover treatment of employees during times workforce reduction. It would be strengthened by clearly defining the process by which HP will determine the necessity for layoffs, which employees will be affected, and the manner in which layoffs will be carried out.

Implementing the Change

Hewlett-Packard is known for its strong change management programs. The same approach can be taken for implementing these changes to “Standards of Business Conduct”, and gaining employee buy-in. Best of all, there are resources already in place that HP can leverage to implement this change:

- ❖ With the last update of the “Standards of Business Conduct,” HP employees were required to participate in extensive web-based training on the policy manual. This training could easily be adapted to include the new and revised policies.
- ❖ Managers can show personal commitment to the revised “Standards of Business Conduct” by including discussion of the newly included ethics policies at scheduled “Coffee Talk” and “Brown Bag” meetings. They can also facilitate discussion on how each employee can play a role in making the policies work.
- ❖ Existing employee networks, such as the HP Employee Sustainability Network, can assist with peer-to-peer education. Peer-facilitated learning has a proven track record in the success of past change efforts, and can be used here to cascade the importance of these ethical policies through our organization.
- ❖ Employees can embody these ethics in quarterly “Day of Caring” activities, doing work for environment and community groups. This hands on experience will allow HP employees from all areas of the organization to live the ethics HP espouses.

Facing the challenges outlined earlier, it is crucial for HP to integrate its ethical policies under the framework of one policy manual. This will not only provide guidance for HP employees as they carry out the company’s business, but will give to parties outside of HP evidence of HP’s ethical commitment.

I have been proud to be associated with Hewlett-Packard. As an employee, I am more aware than the general public of just how ethically strong our company is. By making these changes to our “Standards of Business Conduct” manual, it will make it easier for the public and governmental groups to see what HP employees already know.

Thank you very much for giving your time and attention to these concerns. I am available to meet at your convenience to discuss this matter further.