In August 1998, within 2 months of the merger of Compaq Computer Corporation and Digital Equipment Corporation, a new chief information officer, Michael Capellas, was brought on board. Capellas arrived with a track record as an international CIO and recent stints as director of supply-chain management for SAP America and a senior VP within Oracle Corporation. At that time, he was the only senior manager within the newly integrated computer company that had been brought in from the outside.

When Capellas arrived, the basic communications infrastructure, telephone systems, and e-mail were in place, but integration of the daily operations—taking orders, shipping orders, interfacing with customers—was still underway. Nonetheless, within 4 months after his arrival, Capellas had seen the new company set a world record for the number of units shipped—4.2 million:

Despite all the problems, we are outperforming the world in volume. At the end of the day, business results are business results. We must be doing something right.

—Michael Capellas, Senior Vice President & CIO

Creating a New Information Management Organization

The new Compaq was a combination of the old Compaq’s high-growth personal computer and server businesses with Digital’s mid-range computer products and highly profitable services business. According to documents filed with the U.S. Securities and Exchange Commission as part of the merger approval process, the new company was expected to achieve lower operating costs as well as increased revenues from new cross-selling opportunities. Senior management felt pressure to deliver these benefits quickly, and the information management (IM) organization’s new leader felt accountable:

In our business it is not an enabler, it basically is the business. If you’re not getting orders, you’re not shipping product . . . and the world is ending.

—Michael Capellas, Senior Vice President & CIO

Under its former CIO John White, Compaq had a highly centralized approach to managing IM. This structure helped the IM organization get things done quickly and kept IT spending significantly below the industry average. Although each of the geographic regions had their own IM support groups, White was tightly linked with Compaq’s executive committee and IM strategy and infrastructure standards decisions were all set at the corporate level.

In contrast, under CIO Dick Fishburn, Digital had had a highly decentralized model, with each business having its own CIO. This model gave the distributed manufacturing and services businesses more personal service from their own IS groups, but it was more expensive. It also meant that the business CIOs often went off and did something on their own.

The June 1998 post-merger announcement of the top management team for the new Compaq named White as CIO—but it was well known that White planned to retire sometime before year-end. In fact, the merger integration activities had thrown a kink in the search process for a new CIO and White had signed an extension to his contract. The agreement was that he would stay on until a replacement was found and the merger activities had settled down a bit. This left plans for the new IM organization in limbo over the summer months.

Everyone was concerned about “where do I fit on the org chart?” That’s what they really wanted to hear. So until we could actually tell them that, we gave them a lot about how the business is coming together, what other organizations at Compaq were doing, and where we were on our plans.

—Laurence Cranwell, Director, Communication Technology Information Services
The new senior IM management team was named by White just one week before he retired in August 1998. Thus, when Capellas arrived from Oracle Corporation to head up the combined IM organization, he inherited a new management team that had not yet sorted out lower level reporting structures.

White chose primarily Compaq Classic managers for his senior management team, but as Capellas filled in the organization chart (see Exhibit 1), it became clear that IM management at Compaq would no longer be so tightly controlled from Houston. Rick Fricchione, for example, was an ex-Digital manager who was tapped to be vice president, advanced information technology and planning, and Capellas had agreed that Fricchione could fill the role from Massachusetts. Similarly, Fred Jones, a Compaq Classic manager who assumed global responsibilities for technology and process, had five former Digital managers among his eight direct reports. Only two of the five had plans to relocate to Houston. Laurence Cranwell, one of Jones’ direct reports based in New England, managed a team split about 50/50 between Compaq Classic and Digital Classic.

While Compaq Classic managers lamented the increased complexity that accompanied a more distributed IM management model, they acknowledged that, in a very tight IT labor market, Houston alone could not provide sufficient IT resources for a $40 billion firm. They wanted to take advantage of the fact that Compaq’s two key acquisitions were in high-tech corridors. The 1997 Tandem acquisition gave Compaq a hook into Silicon Valley, and the 1998 Digital merger gave it a hook into the Boston corridor and Route 128.

Adding to the complexity was the recognition that Compaq’s newly acquired services business had different IM support needs than the manufacturing business. CEO Pfeiffer had kept the leadership for the services business in Massachusetts,
reporting to both the CEO and the geographies. Senior VP of Services John Rando had been a key player in the strategy discussions during the premerger integration process, and Rando became a member of the new Compaq’s top management team as soon as the merger was finalized. The IM roadmap for services mirrored this structure. Mike Whitney, the former CIO for the Digital services group, reported to Rando, and the IM teams working on worldwide and functional systems solutions for services reported to Whitney. The IM heads working in each of the geographical services units now had a dual reporting relationship to Whitney and to their local services head:

On Capellas’ new organization chart, I’m the only person who is shown with a dotted line; everybody else is a solid line. Services makes a large percentage of the profit of the company. But it’s difficult in terms of being remote from Houston and there’s still concern on how well services is perceived as integrating into the rest of the company.

—Michael Whitney, CIO, Compaq Services

While Houston IM managers were adjusting to the challenge of managing a distributed work force, those former Digital managers who had decided not to relocate to Houston had to learn when they could rely on e-mail and videoconferencing and when they needed to be in Houston. They knew that they needed to interact with other IM and business managers in order to build good working relationships, and periodically they had to be part of the action in Houston in order to influence decisions:

Things can happen so fast, that if you’re not in the middle of the floor, you’re out of the decision process. The remote manager suffers a little from out of sight, out of mind, because it’s been the mentality of the company.

—Michael Capellas, Senior Vice President & CIO

**Working Toward Process Integration**

In order to achieve the objectives of the merger, senior management felt that process integration was critical. Immediately following the merger, a customer who wanted to buy Compaq, Tandem, and Digital products would have to submit three separate orders and later process three separate invoices. Compaq worked to provide a single customer interface within a couple months of the merger, but real process integration would take some time:

The company had done a pretty solid job of merging the sales force, but the infrastructure was not in place to [enable all salespeople to sell all Compaq products]. The order fulfillment model still had a long way to go; it was just in its infancy. Finance was getting the books closed, but with some brute force.

—Michael Capellas, Senior Vice President & CIO

Ultimately, management wanted an integrated supply chain across the three entities. The business vision was that a customer could call Compaq and order three DEC Alphas, two Tandem Himalayas, and 10,000 Compaq PCs on one purchase order. The order would be reflected as one entry in Compaq’s systems and would arrive at the customer’s location all at one time. To achieve this level of integration, management had to reconcile business model incompatibilities among the separate entities and implement integrated systems to support those enterprise-wide processes that defined the new Compaq. Management coined the term OnePaq for this integration effort. (See Exhibit 2.)
Reconciling Different Business Models

Compaq’s core business processes supported large manufacturing volumes—as many as 20,000 PCs a day in a single plant, which was more than Digital manufactured in all its plants in a week. Digital’s business model, on the other hand, supported direct-to-customer sales and support of smaller numbers of PCs (up to 3,000 per day) and customized mini and mainframe systems. Compaq had acquired Digital specifically because of its services business, but the opportunities it presented and the challenges of integrating services into supply-chain, customer-facing, and e-business processes were not well understood.

The services business negotiated high-end systems contracts directly with enterprise customers. Compaq Classic had not sold services. Its services unit had included a help desk, repair center, and spare-parts shipping for its products. Rather than deal with end-users, Compaq supported its channel partners, who supported Compaq’s customers. In contrast, Digital had serviced its own systems and that of its competitors. In addition, Digital had sold systems integration services, while Compaq had regularly used the services of systems integrators like Andersen Consulting (now Accenture) and PricewaterhouseCoopers. These very different business models made for an uneasy transition following the merger. Some Compaq Classic managers sensed that Digital’s willingness to service competitors’ equipment compromised potential Compaq sales, while former Digital managers were wary of the impact of Compaq’s alliances with competing service providers on service unit revenues.

Ultimately, Compaq service engagements that involved implementing systems like SAP, Siebel, or e-business applications would “pull” Compaq hardware sales. Similarly, hardware sales were expected to lead to services revenues. Because of the differences in old business models and systems, however, Whitney anticipated that it would take some time to see synergies from the merger of the Compaq, Digital, and Tandem services units. The integration would involve a global portfolio mapping of all Compaq services across the world and the implementation of the SAP baseline to support them.

An early initiative immediately following the merger was a Web-based front end for online orders via the Internet. This, of course, did not clean up the back-end systems. One vice president noted that the new front end was like “putting lipstick on a pig.” But the Web-based front end was important for moving Compaq Services into the Internet space:

> The Internet world sort of changes the spin on how you want to deliver services. For the small-to-medium business environment, more than likely we’ll look at a lot of Webbing and a lot of the Compaq Classic stuff, because we can’t afford $100–200K service centers. But the time that it’s going to take to integrate all the call-handling, all the sales and marketing, is nowhere near the speed that the business wants to go.

—Michael Whitney, CIO, Compaq Services

Implementing Enterprise Systems

Enterprise systems implementation embodied two different challenges. One was to redefine the new firm’s business processes. The other was to effectively manage ERP implementation projects in a large, complex, constantly changing organization.

Prior to the merger, Compaq had total worldwide supply-chain planning running on custom systems. Except in the U.S., this had tied into SAP for order management. IM did not immediately attempt to install these systems at Digital facilities, because supply-chain planning would be very much affected by the firm’s reorganization. From June to November 1998, the firm was shutting down plants, laying off people, and consolidating operations. Thus, prior to November 1998, there was little progress in integrating the supply chain across former Tandem, Digital, and Compaq sites. Ultimately, management had to decide the extent to which the supply chain could be standardized across geographies and product lines:

> In any of these large ERP projects, if you can answer “how common is common,” you’ll get it right. I’ve never seen anybody do it gracefully or painlessly. It’s a very, very difficult question—and it’s much broader than IM. It’s the whole world of management in the ’90s. Technology is allowing you to make more things common than you used to; but on the other hand, the flexibility of that technology is also giving capabilities at the local level to people that never had it before. So it’s a difficult balance of technology, management style, and just pure efficiency.

—Michael Capellas, Senior Vice President & CIO

In addition to supply chain differences, there were significant differences in the firms’ financial closing and forecasting processes. For example, both Compaq and Digital used Hyperion systems for financial consolidation. However, Digital did the currency translation at the transaction level and then fed transaction data into Hyperion in U.S. dollars prior to doing cost allocations. Compaq did all of its cost allocations and liquidations inside its new SAP system and then sent the transactions in local currencies into Hyperion where they were translated. In addition, they took different approaches to foreign currency translation. Digital translated monthly results while Compaq translated each transaction.
How we run our closes between Compaq and Digital Classic are very dissimilar. That doesn’t mean one is right or one is wrong. It’s just that two companies have chosen to do it two different ways. Basically, when you look at our systems, the only thing similar is they’re made by the same vendor.

—Director, Global Financial Processes

Meeting the Headcount Reduction Targets

At the same time that OnePaq implementations were getting underway, another challenge for the new IM organization had to be tackled: meeting the headcount reductions filed with the SEC as part of the cost savings rationalization for the merger. Achieving the quotas was a nonnegotiable issue, and funds had been put aside for termination packages. When Capellas arrived in August 1998, the “clock was already ticking” but decisions about the downsizing targets for specific IM units had been delayed until his arrival.

Most IT groups were given an 18 percent target, but a portion of the quotas would be met by attrition. Many experienced Digital managers—including the Digital CIO and eight other managers who had carried a CIO or vice president title in the Digital IS organization—had left the company before Capellas’ appointment was announced. Additional “cream of the crop” employees left before the layoffs began:

As Digital had gone through rounds of cost cutting and facility closings it was not unusual to have one or two really good people working from home in a particular area. Eventually this grew to a work-at-home program with hundreds of people (at least 100 in IS) participating. At the time of the merger, these people were viewed as a problem and the directive went out to either bring them into a Compaq office or lay them off. What many saw as progressive work practices at Digital were being eliminated. Hundreds left the company over this one alone.

—Rick Fricchione, Vice President, Advanced Information Technology and Planning

When Capellas arrived in August, overall attrition rates were quite high. At one point “sharks” from a major IT consulting firm had camped outside of the Digital offices in recruiting vans:

You take a very hot area like IT where the job market is on fire. You compound it with an equally red hot market like SAP. Put it together with the uncertainty of an acquisition, and you will get attrition. It was also fairly clear that the new Compaq was going to be based in Texas, and the thought of becoming cowboys was not always that appealing to those long-established Bostonians.

—Michael Capellas, Senior Vice President & CIO

A snag in the downsizing process was caused by delays in the European labor negotiations. Late in 1998, it became clear that it would be impossible to meet the European targets for that year. The U.S. groups were told to increase their 1998 layoffs. Although this meant that the U.S. targets for 1999 would be lowered when layoffs in Europe became possible, it affected credibility and morale within IM:

We ended up—after many of us had told everybody “that was it”—having to go back and do another [round of layoffs]. That last one in December was pretty brutal. It had big morale issues. We had said we were done.

—SAP Project Director
The staff reductions, coupled with accelerating demands for data integration, e-commerce capabilities, and enterprise systems support, forced constant focus on attacking only the highest IM priorities.

**Transforming the Firm**

As the last year of the century began, Compaq’s logo was appearing on Digital buildings in New England, and the rebadging of Digital Classic people was underway. IM management noted that some pieces of the IM integration were clear from the outset; others were evolving on a daily basis. In particular, IM’s role was increasingly focused on enabling Compaq to transform itself from a build-to-stock to a configure-to-order model as the firm moved aggressively into e-business:

> We anticipated some of the ways that the new business would be put together, but some of the pieces were put together differently than we expected. The maturity of e-business and Web-based business all happened in the same time frame. The business priorities turned 180 degrees during the integration process. The Web project was always on the roadmap, but the urgency changed significantly during the first 9 months of integration.
>
> —Fred Jones, Vice President, Information Services

By early 1999, management recognized that the OnePaq initiative would not meet its initial targets, and management established new SAP target implementation dates for the next 4 quarters. These included merging general ledgers in Q2 of 1999; consolidating order management (in part) in Q3; integrating manufacturing in Q4 of 1999 and Q1 of 2000; and systems integration of the services business in Q2 of 2000. The OnePaq initiatives were critical for addressing the goals for the merger as filed with the SEC, as well as for enabling Compaq to compete in an e-business world.

**Epilogue**

In July 1999 Michael Capellas, Compaq’s CIO, was appointed CEO. At that time, Compaq’s revenues were stagnating and the firm had not yet realized the anticipated cost savings from the merger. By September 2000, Compaq’s revenues had rebounded and operating costs were on the decline. Compaq reported net income of $712 million for the first two quarters of 2000 on revenues of $19.6 billion, as compared with net income of $97 million on $18.8 billion in revenues for the year-earlier period. In addition, Compaq was generating $6 million in daily sales through its Web site and about $50 million in daily sales through EDI.

Compaq’s IM unit delivered GlobalNet in mid-1999, fulfilling the green-field vision established prior to the merger. In practice no one in the Compaq organization would be more than “two hops from the backbone,” and the network had universal remote access. This design provided better bandwidth usage, which meant that Compaq could spend its dollars on the routing architecture rather than bandwidth. Bob Napier was brought in from GM Delphi to take the CIO role. He, in turn, placed CIOs in each of the business units, creating a federated IM structure for the new Compaq.

Capellas reorganized Compaq around global business units: consumer, commercial PCs, storage, industry standard servers, business critical servers, professional services, and customer services. Each business unit appointed a vice president for key processes such as supply chain. The services unit was originally grouped with enterprise computing, but sales languished and Compaq lost ground to IBM. Eventually Capellas moved to a direct sales force rather than channel partners, and he joined services with direct sales to better serve the needs of large corporate customers. The resulting organization was one that was prepared to be a total enterprise player.