

Dean's Executive Leadership Series - 2009-2010

**Transcript of Interview with Ned Barnholt,
Founding CEO of Agilent Technologies**

About DELS: The Dean's Executive Leadership Series at the [Graziadio School of Business and Management](#) features in-depth audio or video interviews with today's top business practitioners and thought leaders. [Listen or subscribe](#) to the podcasts to hear their views and insight on the current challenges and opportunities facing the business community.

Start

Announcer: The Graziadio School of Business and Management at Pepperdine University proudly presents the Dean's Executive Leadership Series. This podcast invites top business practitioners and thought leaders to share their views on the real world of business.

Rick Gibson: Hello and welcome. My name is Rick Gibson. I'm the Associate Vice President for Public Affairs here at Pepperdine University and I'm joined today by Doctor Dean Linda Livingstone, who's the Dean of the Graziadio School of Business and Management. Welcome Linda.

Dean Linda Livingstone: Thank you, Rick. It's good to be here.

Rick Gibson: Well, I understand that the Dean's Executive Leadership series is going full force, and is a great event. How's it going so far?

Dean Linda Livingstone: Well, we've had an excellent series this year, having folks from entertainment, from banking, from healthcare. So lots of variety and some really fascinating conversations have taken place.

Rick Gibson: Absolutely. Well, tell us about your guest today.

PEPPERDINE UNIVERSITY

Graziadio School of Business and Management

Dean Linda Livingstone: Well, we're very excited about Ned Barnholt. He is really an icon in Silicon Valley. He was the founding CEO of Agilent Technologies, which was spun off from Hewlett Packard. And he had been with Hewlett Packard since 1966. So he's really seen it all in Silicon Valley.

Rick Gibson: Well, I really look forward to this conversation. Let me invite our listeners to sit back, and relax, and enjoy this conversation with Ned Barnholt.

Dean Linda Livingstone: Well, it's a pleasure today to be here with Ned Barnholt who was with Hewlett Packard for 30 years. And then was the kind of founding president and CEO of Agilent Technologies.

Ned Barnholt: Thirty-three years.

Dean Linda Livingstone: Thirty-three years! Excuse me, goodness—as it was spun out from HP. So Ned, we appreciate you being a part of our Dean's Executive Leadership series.

Ned Barnholt: Thank you, good to be here.

Dean Linda Livingstone: Ned, you talked about 33 years with Hewlett Packard, and that's kind of a rarity today for people to have that long of a career with one company. It was probably fairly common at HP when you were there. But talk a bit about that culture, and kind of your evolution through the ranks at HP, and what it was that kept you there for that long.

Ned Barnholt: Okay, well I joined HP in 1966 when the company was at about \$200 million of revenue, and about 3,000 employees. I started in research and development, but after a couple of years I knew I didn't want to spend my life with my soldering iron. So I wanted to get out and meet real customers and interact with more people. So I moved over to marketing. But over those 33 years I was with the company, the company really grew a lot. When we split off Agilent, it was \$45 billion in revenue and 125,000 employees. We had gotten into computers and printers, and all these new businesses. So the company changed a lot. It grew a lot. But at the same time a lot of the values, a lot of the management philosophies were still very similar to what it was when I started. I think the thing that really attracted me about HP was the culture, the fact that it was a very—more of a down to earth culture where people were very informal. There was a lot of decentralized management decision making. Dave [Packard] and Bill [Hewlett] didn't believe that decisions should be made by them. They pushed decision making down to the people who really knew the most about the business to be able to make decisions. And I was

PEPPERDINE UNIVERSITY

Graziadio School of Business and Management

fortunate that I was given a lot of opportunities at a fairly young age. I was a division manager when I was in my mid-30s. Had a chance to start a division from scratch in Spokane, Washington. I built it up to about 1,000 people. Came back, started up a new business—a new group here in the Bay Area. And then I moved into the overall, combining all the measurement businesses into one sector for the company. So I had a lot of opportunities. So I often tell people that in 33 years, I had the career that most people have in terms of the variety and the differences, and the challenges, but all within one company. I started businesses. I managed mature businesses. I turned around businesses. I had a chance to start new divisions. But all the time within the same environment of HP, which I found very stimulating, and very exciting to be part of.

Dean Linda Livingstone: So what was kind of the secret to them maintaining that kind of culture from growing to such a large company? Oftentimes companies sort of become much more bureaucratic, less innovative, less entrepreneurial; and that didn't seem to happen to HP during that stretch. How did they sort of maintain the original sense of the culture as a group?

Ned Barnholt: Well, there was a lot of, a lot of training, a lot of, a lot of communications around expectations. But people often ask me, "Well, why was HP so successful over that period of time?" And I think there were probably four things that stood out for me. One was the—a decentralized management structure where they really did push decision making down to people who knew what they were doing, and could make good decisions. And, as a division manager or even an R&D manager, I felt responsible for my little business inside this big company the same way I would as if I was running my own company. And that was motivational, but it also I think allowed us to be pretty nimble and entrepreneurial even in a bigger organization. I think the commitment of the company to innovation and contribution, and staying at the leading edge of the technology curve—a commitment to advanced research; always looking over the horizon; looking for new technologies that can impact the company like printers, and things that came out of our advanced research. And then a real focus on hiring and retaining the top talent. As a manager I spent probably 25 percent of my time in recruiting and managing talent. Now, I used to go out and do campus recruiting on university campuses, even when I was a division manager. We didn't have HR people do it. We each—each manager was responsible for doing the recruiting. So I think those were four things. But it's true that as the company grew, and as the businesses changed, it was harder and harder to keep that same entrepreneurial feeling. In the measurement business that I was part of, it was a lot easier to have different divisions all responsible for different pieces of the business. You know, when you're in the computer business you can't take a computer and divide it, and divide it into 20 divisions. You've got to have one operating system, and one set of hardware. So it became much harder. And I think certainly as HP grew into some of these newer businesses, it was more difficult to keep that same entrepreneurial, nimble spirit. And I think again, I don't know what it's like today but I would imagine that the size the company is today, it's certainly different than what I experienced in my first 30 years.

PEPPERDINE UNIVERSITY

Graziadio School of Business and Management

Dean Linda Livingstone: So you were there for 33 years. And that's the point in people's careers where they often decide; I'm ready to retire and go play a little golf, or go buy a boat, or whatever. And that was when you took over the role of spinning off Agilent Technologies, and kind of doing this entrepreneurial venture outside of the big company umbrella. What motivated you to do that at that point in your career?

Ned Barnholt: Well, it was the challenge. I mean, it to me ... It was actually kind of a mixed blessing in some way because it was very sad. We spent a lot of time in the late '90s thinking about how do we kind of rekindle some of the growth at HP. HP's growth rates had slowed down. People in the—analysts and people in the industry were saying, "Well, gee, HP has kind of lost its way and missed the Internet, and didn't do a lot of things." So we spent a lot of time thinking about how to re-energize the company. And when we started looking at splitting the company it wasn't so much the size that drove us to split. It was more to the complexity, because our business is very different than the computer businesses and certainly the printer businesses. But once we decided that HP would be better to be more focused on the computer and printer business, and we would be more focused on the kind of the high value-added measurement, scientific-measurement businesses that it makes, we decided it made sense to split. And at that point it was, I thought, going to be a great opportunity and a lot of fun. And the first year was fun. We had—we, it was such a challenge. In the first six months, or three months after we announced the split we had to split 600 real estate sites, about 10,000 patents, 16,000 shared infrastructure people that we had to assign to one company or another. We did all that in three months. We came up with a name. We did our IPO. I mean people were so energized. I mean, we had a lot of fun. And then...

Dean Linda Livingstone: That was an exciting time.

Ned Barnholt: It was an exciting time.

Dean Linda Livingstone: Yes.

Ned Barnholt: And I thank all the employees that were there. And then through that, I would look back and say that was a real highlight. So for me it was the challenge, it was the opportunity, it was the—it was somewhat the opportunity to start something from scratch. We used to say that Agilent was an \$8-billion start-up because we had \$8 billion of revenue. But everything else was new. We could do anything we wanted; nobody was telling us what we had to do. So what we decided is that we wanted to build the company on the values and culture of HP. But we wanted to do everything with more speed, more focus, and more accountability. And that was our mantra.

PEPPERDINE UNIVERSITY

Graziadio School of Business and Management

Dean Linda Livingstone: And then after that first year the—that was when the Internet bubble burst in a big way up in this part of the country. How did that change where you were going, and how you thought about running the company? Because it wasn't anything that people sort of had anticipated. Certainly, at least not in the major way that it happened. And it certainly had a significant impact on Agilent along with many other companies.

Ned Barnholt: Well, it was, it was really a challenging time. We grew about 40 percent our first year as a public company in 2000. And we were, we were just racing to catch up. It was in the middle of probably the first quarter or so of 2001, that the bubble burst for us. And our revenues dropped 60 percent in three quarters.

Dean Linda Livingstone: Yes, it was dramatic.

Ned Barnholt: And so it was, it was tough because we, after separating from HP, we knew our cost structure was so high. It was too high. As part of the separation from HP, we weren't as lean and mean as we probably could have been. And we knew we had to work on that. But when we were growing 40 percent a year, we didn't have time to fix all those problems. We also...

Dean Linda Livingstone: There's not as much of an incentive in that kind of a climate to do it, either.

Ned Barnholt: Exactly. And then in hindsight I think we were probably undercapitalized. We had too little cash because the assumption was we would generate so much cash. We didn't need a lot of cash. Well, it turns out when we grew 40 percent we didn't generate as much cash as we needed to, as we wanted to, because we needed it for working capital. And so we were short on cash. We were overextended with our expense structure. And then the revenues dropped 60 percent. So it was really dicey there for a while. And we had fortunately, a little bit of money in the bank. But we had, we knew we had to resize the company. And that was a very, very difficult and challenging decision, particularly on the heels of a 40 percent growth the year before. So, we worked hard. And I think people, I'd say, around Agilent, everybody got it. Everybody understood there was 60 percent drop in revenue. And with a limited amount of cash you have to do something. And I think nobody disagreed that we had to restructure and resize the company. There was questions about why them, or why their organization. But that was a very painful and difficult time.

PEPPERDINE UNIVERSITY

Graziadio School of Business and Management

Dean Linda Livingstone: So as you reflect back on that period of time as the leader of the organization—what did you learn from that, which might be helpful to others? Because we see companies now that have gone through the same thing because of the economic downturn. But what lessons did you learn through that, that you wish you'd known before that. Or what might you have done differently if you had— you talked a little bit about the cost structure and some things. But what did you learn from that experience that might be helpful to those listening?

Ned Barnholt: Well, I did a—after, a couple of years after that period, I did a "10 Lessons Learned from the Downturn." And lesson number one was the time to get ready for the next downturn is during the next upturn. In other words, don't over hire; don't overextend yourself. Lesson number two was don't start R&D projects or new initiatives during an upturn that you're not willing to keep during a downturn. Because if we're going to be constantly starting things, and canceling them, then it doesn't make sense. So only do things that are really strategic, and really critical. And so really managing your cost structure, keeping it lean, not getting overextended. And on the upturn is key. Another one is, of course, around cash. Conserve cash in the upturn the best you can, and bank it for a rainy day. Because you get all this pressure from Wall Street to buy back your stock, or give them dividends, and all this stuff. But at the end of the day if you're going to have a 60 percent downturn in revenue, you're going to need cash. So...

Dean Linda Livingstone: And I'm not sure a lot of companies learned that lesson from the tech bubble burst that would have helped them get through the current economic downturn, unfortunately.

Ned Barnholt: Although I think people, when tech companies who had gone through the bubble before, were better positioned this time than last time.

Dean Linda Livingstone: The rest of the economy hadn't learned that lesson. <laughs>

Ned Barnholt: And I think we would have gotten better about managing inventories and things like that. So it was—but, it was still traumatic. And I mean, it's always traumatic. But managing cash, managing your assets, keeping your expense structure lean and mean in spite of the fact you're doing well and growing a lot in an upturn, I think is really critical.

Dean Linda Livingstone: So one of the things that you all had to do—and I know you worked hard not to—but you ended up having to lay off a fairly significant number of people during that stretch.

PEPPERDINE UNIVERSITY

Graziadio School of Business and Management

Ned Barnholt: Right.

Dean Linda Livingstone: And a lot of companies have had to do that over the last few years. My sense of what I've read about that was that, as you've said, people sort of understood it. It was painful. They wished it hadn't happened to them. How did you manage those layoffs and the issues with employees? Both those that left and those that stayed so that the company could sort of continue to come out of it and be successful? Because the employees' side in a downturn is so critical, especially when you lose a lot of people. And it's hard on a company.

Ned Barnholt: Well, it's hard and it takes a lot of communication, and a lot of hard work. One of the things that my management team and I did was we set a very high bar for how we wanted to do the layoffs. Some companies hired a firm, brought people into a room; had the firm notify the people they were gone the next day. I mean, some companies...

Dean Linda Livingstone: I think I saw that on the movie, recently, right? <laughs>

Ned Barnholt: Take a fairly brutal approach. Yes, exactly as in the movie. We took a different approach. And we said; look, everybody who leaves is a potential customer, a potential supplier. And we want to treat every individual with dignity and respect. And we set a pretty high bar. I said that every individual who was notified had to be notified in person by their boss. You know, no e-mails, no third-party informing them that their job is eliminated. And we also kept reinforcing people that this was not about them. This was not that they were doing a bad job. And when people take it so personally, and it's hard not to, but at the end of the day when you have to resize the company, you have to let a lot of really good people go. And as sad as it is, that, that's the reality of it. So we kept reinforcing this is not about them. This is not about— this is about the industry. We're not the only ones doing this. We went, asked our supervisors to go the extra mile and help people through the transition. And I was actually quite proud of the way we came through this. I don't know if you recall but in 2001, we were still number 31 on the *Fortune* "Best Place To Work" list, in spite of the fact that we were doing layoffs. And in fact, there was an article about us that said how you can lay off a third of your employees and still have them love you, which was, I think, a great testimony to our management team. Not me so much, but all the people around the world who went the extra mile to help people through this tough time.

Dean Linda Livingstone: So you currently sit on several Boards of Directors.

PEPPERDINE UNIVERSITY

Graziadio School of Business and Management

Ned Barnholt: Right.

Dean Linda Livingstone: How is your view of the company sort of different as a board member than it was as CEO or senior executive, and what about being a senior executive or CEO has sort of helped you in being an effective board member?

Ned Barnholt: Well, being on a board is very different. And I think some people have a difficulty understanding that difference. You know, a CEO, the last thing they want is the board to tell them how to run the company. I think a CEO, a good CEO wants to be able to use the board for advice, for input. Certainly there are fiduciary responsibilities of the board. But the board has to understand that the CEO is the one who is going to run the company. And if they don't like the way it's being run, then they can fire the CEO. But it's not their job to micro-manage or tell the CEO what should be, what he or she should be doing. And that's a transition. So I think you just have to bite your tongue sometimes, even though sometimes you think you know the answer or think you know what you should be doing.

Dean Linda Livingstone: Right. Step out of that CEO mindset, and remember that's not what you're doing now.

Ned Barnholt: Yes, you're—and the other thing is you are representing shareholders. You have to wear a big hat, and say "This is—what's in the best interest of the shareholders in this situation?" So that's one aspect of being on board. But the reason that I enjoy being on boards is there's another piece of it, which I think I can uniquely bring compared to somebody who hasn't been a CEO. And that is, I can be a coach. So one of the reasons that I've joined a number of boards is that as companies go global, as companies deal with strategic issues, as they build scale, try to build culture, I have a fair amount of experience with that in my HP and Agilent life. So I try to meet with CEOs on, from my board separately. Most of them seek me out from time to time when they have a challenge or something they're wrestling with. Not just me, but other board members who are, who have had similar kind of experiences. So you can kind of use a good—a good CEO will use a board as a sounding board, and try to get some inputs before the more formal board meetings.

Dean Linda Livingstone: What advice might you give someone who is, probably is not on a board at this point, but might have interest in a senior level in an organization that might help them prepare for that type of role? Obviously we're seeing a lot more turnover in those kinds of positions. People are serving on fewer boards. So there's a—there need to be more people out there that are able and willing to serve in

PEPPERDINE UNIVERSITY

Graziadio School of Business and Management

that capacity. It's very challenging now. So what advice might you give someone that was interested in going down that path at some point?

Ned Barnholt: Well it depends on where they are in the organization. When I—and I've done a lot of board recruiting, including my own board at Agilent. And usually you look for people that have specific skills. So you want a finance person. Or you want a marketing person. Or you want an operations person. Or you want somebody that has some major change management, or turnaround experience. So you look for people that have specific skills. And so I think for people that are in specific functional areas like marketing or finances, really taking advantage of opportunities to work with their own boards and having experience, maybe in smaller company boards, will be a good training ground to understand what the role for a bigger company board from their expertise. I think it's harder for somebody who—the many boards nowadays, once you've filled certain slots, you need a certain number of finance people; you probably want a couple, one or two operations people. And most boards are looking for people that have senior executive experience, either as a CEO or executive vice president of a big company. Because boards should really focus on strategic issues, not operational issues. And I think so many people think that well, "I'm really good at doing the day-to-day things," but that doesn't prepare them for a board. On a board you're dealing with "Gee, do we make this big acquisition? Do we move the business in this direction?" You know, it's tends to be bigger, more strategic questions. So I think having some understanding and experience in this even within their current jobs is important.

Dean Linda Livingstone: So, one of the questions I always like to ask our DELS speakers is about values that drive kind of who they are as a leader. And I do that because our mission in the business school talks about developing values-centered leaders in advancing responsible business practice. So I find it interesting to hear from people who provide leadership, or leaders in all different kinds of industries and different walks of life. What are sort of the core values that they have tried to live by as a leader? And why are those so important to them? So I would like to hear that from you, Ned.

Ned Barnholt: Well, I mean my values—I think the reason I stayed at HP for 33 years, and stayed at Agilent for almost seven, was because HP values and my values are very much aligned. I mean that's, to me, I'm not setting financial goals for myself. I never even set a position goal. I never even set out to be the CEO. It wasn't one of my goals when I started work. And I never even thought about it. And I just, I just have this deep feeling and belief in people. And I like—what motivates me is kind of seeing things become reality. Taking a—starting new businesses. Seeing an organization that was struggling all of a sudden just start blossoming and excel. Seeing individuals that you coach and mentor go on and do great things. To me it's about that as opposed to the, all the other trappings of leadership. So I never—I think my own values are very much about enjoying what I'm doing. Making sure that I'm in a situation that I feel

PEPPERDINE UNIVERSITY

Graziadio School of Business and Management

like I am enjoying what I'm doing, and making a difference. I, as I said, I never set out to be a CEO. And I, the advice I give people when they ask me about career advice is find something you like to do and do it the best you can. And that's frankly what I did. And one day I woke up, and I was a CEO. And it wasn't, it just...

Dean Linda Livingstone: Your career sort of took care of itself at that point?

Ned Barnholt: Yes, exactly. I just, and if I didn't, wasn't a CEO, I probably would have been very happy. Because I did a lot of fun things, and met a lot of great people. I've liked the people I work with. I like the culture and the organization. And those things were very important to me. We did an interesting study a couple of years ago—or actually a number of years ago now, and at Agilent—what is it that keeps people in an organization? And how do you build loyalties? And it usually comes down to how people answer three questions. Number one is, "Do I work for a firm that I believe in that is doing good things, that is winning in the marketplace, and making a difference in the world?" And then two is, "Do I work with a group of people that I like, that I like coming to work every day, and they support me? They're a good team player. They respect what I do, and contribute, and I just like working with them?" And finally, "Do I have a job that's challenging and interesting, and where I can learn something, and grow, and where I feel recognized and rewarded for what I do?" It's very simple. And if you're in situations like that then you're probably doing pretty well. So to me, finding the company HP, and Agilent, was a key thing. Working with a group of people that I like. And then always having, seems like I never ran out of challenging things to do.

Dean Linda Livingstone: You know, you don't sound much like an engineer talking about your leadership and approach. You sound much more like a human behaviorist in the process, which I find quite fascinating. That's my background is in behavior, in organizational behavior. Is that something that evolved in your leadership style because of the influence of HP? Or has that just sort of always been inherently a part of you having this sort of deep care and concern for the people around you? Because it's sort of not stereotypically what we think about someone who comes out of an engineering background.

Ned Barnholt: Yes, I think it's—if I look back to my—some of the things I did as a kid, and scouting, and other things. And I always, I enjoyed leadership. But to me leadership was all about teamwork. It was all about working together with others. It wasn't, in fact, Dave, here again, Dave Packard and Bill Hewlett used to give the analogy that at HP it's like a football team. Everybody has a job, and if no job is more important than anybody else. The person who blocks is as important as the person throwing the ball or catching the ball. So everybody is equally important. And if everybody does their job, the team wins. And I

PEPPERDINE UNIVERSITY

Graziadio School of Business and Management

guess that's always been my view is ... And so, my very first management job, I was in research and development for about three and half, three years, a little more. And then I moved over to a marketing job. And after maybe about six, nine months, I ended up supervising about four or five people. And I'll never forget my first boss came by after a few months of this. He said, "Ned, you're not being yourself." Because my mental image of management was plan, do, check, act—just kind of the deliverables. And I said, "Ned, be yourself." And that always stuck with me. And so to me, my leadership style is be myself. And interact with people. Be honest, direct, and everything takes care of itself.

Dean Linda Livingstone: Well, that's pretty good leadership advice for us to conclude our discussion on be yourself. So Ned, thank you so much for joining us. It's been very insightful and we appreciate your time.

end of interview

Rick Gibson: Well, Linda what a rare opportunity to be able to speak with such an icon in this industry.

Dean Linda Livingstone: Well it was, and Ned had such a wonderful perspective on both the history of Silicon Valley and the future ahead. And so we were really privileged to have him with us this year.

Rick Gibson: Well tell us who we have lined up next for the series?

Dean Linda Livingstone: Well we turned right back around in Santa Clara on May 15, and have John Figueroa, who's President of U.S. Pharmaceutical for McKesson Corporation. And we're particularly pleased to have John with us because he's one of our Alumni.

Rick Gibson: That's right. Well, let me invite our listeners to visit us at bschool.pepperdine.edu/dels, that's d-e-l-s. You can visit that site to learn more about the Dean's Executive Leadership series, or to register for an event to attend in person if you would be in the area. You can also visit us at iTunes U, and at YouTube to watch videos of the series, or to download a podcast. Until next time, thanks for listening.

Announcer: In a tough economy investing in yourself is one of the best investments you can make. And an education is something that can never be repossessed, foreclosed upon, or lose its value. That's why now is the perfect time to earn your Master's in Business from Pepperdine University. Because

PEPPERDINE UNIVERSITY

Graziadio School of Business and Management

Pepperdine's exceptional MBA programs are built around real-world curriculum, not just theory. So you'll gain knowledge that can be applied immediately on the job, increasing your value in the workplace. During the past century our country has survived over a dozen recessions. The economy will eventually turn around, and when it does you'll be ahead with a degree from Pepperdine. You'll also have access to Pepperdine's extensive alumni network, career development opportunities, and employment resources. Visit bschool.pepperdine.edu today. Pepperdine University's prestigious Graziadio School of Business and Management.

