



**Workforce**  
MANAGEMENT

Feature: Culture Crash

## Culture Crash

In executing a corporate overhaul did Intel lose what made it such a celebrated place to work?

By Ed Fraenheim

Intel portrays its dramatic restructuring over the past 20 months or so—which includes some 10,500 job cuts—as a corporate upgrade. Done in the face of falling revenue and market share, the reorganization has made the computer chip giant leaner and more competitive, Intel says. Better financial performance and new, groundbreaking technology are apparent proof of the restructuring's success.

But behind this rosy picture are signs the overhaul included glitches that may cause Intel problems down the line.

What's at stake is the potential loss of an Intel that has long been known as a place that prizes fresh ideas, frank talk and employee engagement. It is a company that for years could be found among *Fortune's* best places to work. But now a number of former Intel employees say the firm botched the restructuring

in ways that have harmed morale, employee development and long-term leadership quality. In addition, some results of an internal employee survey point to worker dissatisfaction and suggest a less-than-thriving culture of innovation.

Intel's restructuring raises questions about how organizations should go about handling people issues when faced with financial trouble. The company also may offer a cautionary tale about the business world's push to rely more heavily on quantitative workforce data and to categorize employees according to highly defined skills or competencies.

Wayne Cascio, a University of Colorado business professor who has researched corporate reorganizations, touted Intel as among the best companies for responsible, effective restructuring in the mid-1990s. He no longer considers the chip maker in that upper echelon of firms, saying Intel has resorted to widespread layoffs. Despite Intel's financial progress of late, it may not be clear for years whether the company's recent restructuring was sound, he says.

"A lot of times there are delayed effects," he says. "Your financial numbers can look good in the short run. But you also have to worry about things like institutional memory and the ability to innovate over the long term."

Effective managers and top training specialists left the company amid the overhaul, a number of former Intel employees say. In interviews with a half-dozen former Intel employees, other criticisms surfaced—including charges that Intel disregarded employees' passions in reorganizing, squandered the talents of HR specialists and unwisely shifted leadership training efforts from lower-level managers to upper-level executives.

Critics say problems in Intel's reorganization are part of a broader erosion of its culture.

---

**Intel's corporate overhaul may have badly damaged employee development, morale and the company's culture of innovation—**

---

**offering a cautionary tale of how employers should handle workforce issues amid a major transformation.**

---

"Several levels of management have stopped listening to the people who are doing the work," says Kevin Gazzara, a former program manager in Intel's learning and development group who says he quit the firm in sadness and frustration last year. He had been at the chip maker 18 years. "Intel could have done it so much better."

*Workforce Management* obtained some of the results of Intel's August Organizational Health Survey, which indicated that just 55 percent of Intel employees are satisfied with their career development opportunities at the firm, and that 44 percent of employees would leave the company for a job elsewhere with similar pay and benefits. Asked to respond to the statement "At Intel, informed risk-taking is valued regardless of the outcome," only 50 percent agreed.

Intel, which at times has touted its leadership in the area of workforce management, declined to comment on specific employee survey questions. But it says overall results of the survey were flat compared with 2005, and an improvement from 2000.

Patricia Murray, Intel senior vice president and co-leader of the firm's human resources department, says Intel is aware that its esprit de corps took a hit during the restructuring, which dates to April 2006. "We just lived through a very hard time. Our morale is down," Murray says. "And this is the time to do something about it."

#### Financial turnaround

Founded in 1968, Santa Clara, California-based Intel is the world's largest semiconductor company. Intel's culture has been lauded as one of the most effective and employee-friendly in the world, and for years the firm has been known as a corporate training leader.

But the company's revenue fell 9 percent in 2006, to \$35 billion, and its net income dropped 42 percent, to \$8.7 billion. Reports said Intel lost market share to arch rival Advanced Micro Devices for periods of 2005 and 2006. During the dot-com boom, the company's stock price had soared to nearly \$70, adjusted for dividends and splits. But Intel shares hovered around \$25 in 2005 and dropped below \$20 for much of 2006.

---

**Intel's HR department is aware that esprit de corps took a hit during the restructuring. "We just lived through a very hard time. Our morale is down. And this is the time to do something about it."  
—Patricia Murray, senior VP and human resources department co-leader, Intel**

---

Faced with this weak performance, Intel in April 2006 announced its intent to restructure. And in September of that year it revealed plans for an overhaul designed to reduce costs and operating expenses by \$2 billion in 2007 and \$3 billion in 2008. The reorganization was expected to trigger savings in merchandising expenses, capital, materials and labor costs. Intel said it would cut its workforce to 92,000 by the middle of 2007. That is 10,500 fewer positions than it had in mid-2006.

"These actions, while difficult, are essential to Intel becoming a more agile and efficient company—not just for this year or the next, but for years to come," Intel president and CEO Paul Otellini said in a statement at the time.

In November 2007, Intel said its headcount would likely get down to 86,000 by year's end. Intel spokeswoman Gail Dundas said the additional downsizing is a result of "normal attrition and other business activities."

Intel's financial performance has improved. Revenue for the quarter ended September 30, 2007, jumped 15 percent year over year to a record \$10.1 billion. Net income was up 43 percent to \$1.9 billion. Also last year, the company unveiled new processor chips designed to stem electricity leakage, a nagging problem as circuitry grows smaller. Time named Intel's 45-nanometer Core processor one of the best inventions of the year. Intel shares recently neared \$28 before settling back around \$22.

### Key managers ousted

Critics, though, say Intel's gains may be short-lived. Ex-Intel employees interviewed for this story generally agree the company was bloated and needed an overhaul, but they take issue with how Intel executed the changes.

Among the jobs Intel eliminated were 1,000 management positions trimmed by late July 2006. During that cut, Intel wound up sacking many leaders skilled at people development, says a former Intel manager who lost his job in the reduction. The manager, who spoke on condition of anonymity out of concern that his current techindustry firm could be harmed, says one of the criteria used in allocating those pink slips was how well managers had prepared their direct reports to move up in the firm.

"If you had a well-run organization with a lot of bench strength—in other words, you were a good manager—you were deemed expendable," he says.

Intel declined to comment on this claim. But an internal Intel document shared with *Workforce Management* indicates the company realized it was losing quality employees in the 1,000-manager cut. The memo, intended to help managers speak with their teams about the layoff, states: "We know we are losing good people in this move. But we have too many managers, and this manager reduction is necessary to improve our decision-making and communication and to resize the company. In addition, since we need to become a leaner company and are limiting job openings, redeploying their skills, as individual contributors or as managers, is not a reasonable option."

Intel declined to comment on the memo.

---

**"Once you measure too much,  
you believe the organization is a  
machine. I think the organization  
is a living organism."  
—Lynda Gratton, professor, London  
Business School**

---

In addition, former Intel employees say first-rate employee development experts were laid off or left as a result of the restructuring. Among the leadership experts Intel lost in the overhaul is Kevin Gazzara. Until December 2006, Gazzara ran leadership development programs at Intel targeted at first-line and midlevel leaders. *Workforce Management* featured Gazzara in a November 2005 cover story about globalization training, and his efforts were among the reasons Workforce Management gave Intel an *Optimas Award* in 2006 for overall HR excellence.

With a doctorate in organizational leadership, Gazzara has researched how employee performance can be improved by setting up jobs that match workers' preferences for a certain blend of routine, troubleshooting and project-oriented tasks.

Given this background, he says it is ironic that Intel leaders dismissed his and others' interests during the restructuring. Intel assigned him to work on ad-hoc courses based on his knowledge in training design, he says. But his heart and his expertise were in working on comprehensive leadership development and employee engagement programs, where he saw great potential to help Intel. Partly out of dissatisfaction with his new role, Gazzara resigned in June from the company he had loved for years.

"The managers did everything on paper by the numbers," Gazzara says. "There were no discussions."

Gazzara has since founded a consultancy focused on leadership development with two other former Intel employees. The firm, Magna Leadership Solutions, has done work for customers including Cisco Systems and Avis.

### Expertise squandered

Indeed, Intel's other HR co-leader, vice president Richard Taylor, says that over the past five years he has pushed to make Intel's HR department more data-driven. Taylor, an accountant by training, and other Intel officials don't dispute that HR reassignments were done based largely on competencies. But Intel officials contest the idea that employee preferences were ignored, noting that managers are expected to talk with their direct reports at least annually about career aspirations.

Intel may have lost some training specialists, but its training investment has increased, officials say. Per capita spending on training has increased 6 percent over the past four years, Taylor says. Preparing leaders has been a key target: spending on leadership development rose 119 percent last year, and is up 50 percent over the past five years, Taylor says.

Intel also defends the quality of the leadership development expertise that remains at the company. "I am really proud of this HR organization," Taylor says, adding that his staff is made up of "some of the best, most professional and most skilled HR people anywhere in the world."

---

**"I am really proud of this HR organization. ... [It is made up of] some of the best, most professional and most skilled HR people anywhere in the world."  
—Richard Taylor, VP and human resources department co-leader, Intel**

---

Robert Burgelman, a business professor at Stanford University, gives Intel high marks when it comes to developing its executives. Burgelman, who teaches several courses a year on strategic thinking to Intel senior managers, says many firms train their executives with a smattering of different courses, coaches and concepts. The result is a cadre of leaders who don't use the same frameworks for solving problems or setting strategy, he says, which slows them down. "Intel has avoided this by exposing many, many people to the same ideas," he says.

But critics claim Intel made poor use of leadership development experts in the course of the restructuring.

A former training specialist who left Intel last year after more than 15 years with the company says Intel effectively wasted his talents by reassigning him. Before the restructuring, the training specialist created leadership programs for an Intel business unit with more than 4,000 employees. Intel moved him into an HR generalist role, he says, where he often handled entry-level administrative tasks such as helping employees locate company policies. Other experts in organizational development were given similar generalist roles, he says.

"I told my manager they shouldn't be paying someone like me to do this job," says the specialist, who earned more than \$100,000 a year.

Taylor says a number of organizational development professionals were asked to handle a broader array of HR tasks, such as recruiting and compensation matters. But he denies the new work should amount to superficial tasks. Taylor says his HR staff should be deflecting basic inquiries to the Web or a call center, and that their new role allows for increased authority given the larger ratio of Intel employees to HR professional.

"It may be broader, but it's hugely more impactful," he says.

### Development revamp

Intel also used the occasion of the restructuring to adopt a new philosophy on employee development, company officials say. More continuous learning, greater involvement of managers in leadership training and better use of "Web 2.0" interactive technologies are central to development efforts now, officials say.

"Our focus on developing great leaders has stepped up a notch," Taylor says.

Intel employees overall, though, are far from content when it comes to career development, according to the August employee survey. Asked to respond to the statement "I am satisfied with my opportunities to develop and grow at Intel," only 55 percent agreed or strongly agreed.

This figure, in addition to the finding that more than 40 percent of Intel employees are willing to leave for a job with comparable pay and benefits elsewhere, indicates Intel may be at risk of losing valuable employees. John Boudreau, management professor at the University of Southern California, stresses he is not personally familiar with Intel's situation or recent history. But he says research suggests that top performers tend to be particularly sensitive to career development opportunities, and often have the most options if they decide to leave.

Intel's Murray says turnover hasn't risen in the wake of the restructuring. Turnover generally remains less than 10 percent annually, and less than 2 percent for the employees Intel dubs "high performers."

Even so, Intel officials say they are taking action to keep employees happy in terms of growth opportunities. In July, the company hired Steve Backers to head up career development programs.

### **Data-driven**

Whether Intel's legendary corporate culture has withered is subject to debate. Intel officials argue it is alive and kicking. But another result from the August employee survey hints at significant employee distrust of management. Asked to respond to the statement "I believe that action will be taken based on the results of this survey," just 48 percent of employees agreed or strongly agreed.

Lack of confidence that leaders will respond to employee feedback may help explain Intel's gradually declining performance on *Fortune's* list of the 100 Best Companies to Work For. After finishing in the top 65 from 1998 to 2004, Intel finished 97th in 2006, and failed to make the list altogether in 2005 and 2007.

That drop-off also corresponds roughly to Taylor's data push. Analysts agree that organizations should do more to quantify their talent and make workforce decisions more scientifically. But some warn the numbers focus can go too far, and ignore intangibles or impede innovation. London Business School professor Lynda Gratton, for example, warns that companies sometimes pay too much attention to metrics, and that can get in the way of fostering "hot spots" in a firm, where important new work gets done. "Once you measure too much, you believe the organization is a machine," Gratton told *Workforce Management* last year. "I think the organization is a living organism."

Gazzara says the changes to Intel's HR operations are part of a broader, disturbing trend of focusing on metrics without serious consideration of the experience, passion and talent of employees. "I really think the 'H' in HR, particularly at Intel, is missing," he says. "People are viewed as a commodity."

Intel officials beg to differ. Murray, for example, says that she read most of the 57,000 written comments submitted by employees in the recent employee survey. And her vision for the company is not one of merely optimizing talent metrics. Intel has a "huge opportunity to say, 'OK, we're changing. Now let's make this a lively, engaging workplace,'" Murray says.

Not everyone is so sanguine about Intel's prospects. The training specialist who left the company after more than 15 years portrays Intel's recent restructuring as part of a rise and fall of smart people management at Intel. In his view, managers were given a great deal of autonomy during the company's flush times in the 1980s and '90s, and some invested in effective employee development practices. But as money got tight over the past few years, he argues, senior managers reverted to a technology and finance orientation. Intel effectively sacrificed its people development legacy in the process, he says.

"They killed an essential side of Intel's soul," he says.

Some might call this a naive viewpoint, given how common it is for companies to trim training during tough times. In any event, Intel says it has done nothing of the sort. Pointing to greater funding and a revamped training philosophy, Taylor says the company is as committed as ever to fostering employee and leadership growth.

And he frames Intel's approach to the annual *Fortune* contest as another sign of the company's commitment to the best people practices. One of the steps in pursuing a spot on the *Fortune* list is a survey

given to 400 randomly selected employees. The results are given back to the firms.

"We still choose to apply for it," Taylor says, "because we want to learn from our employees."

*Workforce Management*, January 14, 2008, p. 12-17 -- [Subscribe Now!](#)

---

*Ed Frauenheim is a Workforce Management senior staff writer based in San Francisco. E-mail [editors@workforce.com](mailto:editors@workforce.com) to comment.*

---

[Home](#) | [Research Center](#) | [Community Center](#) | [Commerce Center](#) | [Conferences](#)  
[Benefits](#) | [HR Management](#) | [Recruiting & Staffing](#) | [Software & Tech](#) | [Training & Develop](#) | [Legal](#)  
[Current Print Issue](#) | [Subscribe/Renew](#) | [Subscriber Help](#) | [E-Newsletters](#)  
[Contact Us](#) | [Site Help](#) | [Terms of Use](#) | [Privacy Statement](#) | [Rights & Permissions](#) | [Advertising Info](#)

---



Copyright © 1995-2010 Crain Communications Inc.  
All Rights Reserved. [Terms of Use](#) [Privacy Statement](#)