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# HP Spy Scandal Hits New Weirdness Level

By BRIAN BERGSTEIN, 09.20.2006, 05:12 PM

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Hewlett-Packard Co. may be the world's largest technology company, but the superlative that better suits it these days is Provider of the World's Strangest Corporate Drama.

For two weeks, almost every day has brought revelations of questionable tactics that HP investigators used this year and last to root out who had been describing boardroom deliberations to the media. Corporate intelligence is an old and frequently practiced art, but HP's efforts feel more Watergate than Wall Street.

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Not only did investigators impersonate board members, employees and journalists to obtain their phone records, but according to multiple reports, they also surveilled an HP director and a reporter for CNet Networks Inc. They sent monitoring spyware in an e-mail to that reporter by concocting a phony story tip.

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They even snooped on the phone records of former CEO and Chairwoman Carly Fiorina, who had launched the quest to identify media sources in the first place.

And in a twist that might seem preposterous if it happened in a movie, The New York Times reported that HP consultants considered hiring spies to pose as clerical or custodial workers at CNet and The Wall Street Journal.

"It betrays a type of corporate culture that is so self-obsessed, (that) really considers itself not only above the law, but above I think ethical decency, that you have to ask yourself, where did the shame come in?" said Charles King, an analyst with Pund-IT Research.

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Jeffrey Sonnenfeld, senior associate dean at the Yale School of Management, said the HP affair stands out even against similar episodes from the past, such as the 1991 incident in which Procter & Gamble Co. persuaded authorities to mine 803,000 phone bills to track leaks to a Wall Street Journal reporter.

"This sort of investigators-gone-wild behavior is in a novel realm," Sonnenfeld said.

Investors have shrugged off the scandal, with HP stock up slightly since the story broke. But there will be repercussions. The almost certain illegality of posing as someone to obtain phone records has sparked state and federal probes into the computer and printer maker.

HP Chairwoman Patricia Dunn and the company's general counsel are testifying to a congressional committee next week about why they approved the investigations. Attorney Larry Sonsini, a Silicon Valley power broker who advised HP's board, is also being called onto the carpet.

Dunn has agreed to cede the chairmanship to HP's chief executive in January, but she plans to remain on the board. Fortunately for her but perhaps disappointing for those entranced by this drama, her two biggest enemies are gone: Director Thomas Perkins quit in protest of the investigation tactics, while director George Keyworth resigned after being outed as a leaker.

Ironically, this was supposed to be a time in which HP had moved on from a period of extreme board dysfunction.

In 2001, Fiorina convinced skeptics on the board that HP should acquire rival Compaq Computer Corp., a deal that ended up costing \$19 billion. She persuaded all of them except for one: Walter Hewlett, son of one of the engineers who founded HP in a garage in Palo Alto, Calif., in 1938.

Even while Hewlett remained on the board, he launched a dramatic and ultimately nasty fight to scuttle the deal. When shareholders narrowly approved the deal, Hewlett sued the company and alleged that Fiorina had improperly cajoled an investment bank to switch its vote.

Back then, talking to the press was actually a duty for some HP directors, who revealed details of board meetings in an effort to refute points made against the deal by Hewlett. Dunn, Keyworth and even Sonsini all spoke on the record to challenge Hewlett's descriptions of board deliberations.

Acrimony at HP didn't end even after the Compaq deal was sealed and Hewlett left the board in 2002. By 2005, the board's unhappiness with HP's uneven financial results under Fiorina emerged in news stories that began one of the leak hunts.

"There were conflicts on the board trying to make a go of the (Compaq) marriage, strong differences of opinions, strong personalities," said Bruce Oliver, director of the Center for Business Ethics at the Rochester Institute of Technology. "You've had a divided board for quite some time now. That somewhat set up the opportunity for this to happen at that company."

After the board fired Fiorina and turned to Mark Hurd, a lower-key, cost-cutting maven who had spent 25 years at NCR Corp, HP finally seemed to enter a quiet, successful phase.


Hurd's no-nonsense operational style thrilled investors; HP stock has nearly doubled during his tenure. Now that IBM Corp. has sold its personal-computer division, HP is surpassing Big Blue as the world's largest tech company by revenue. HP's other main rival, Dell Inc., has stumbled badly, further boosting HP's image in comparison.

Until all this.

HP spokesman Ryan Donovan would not comment about how the company expects to keep this scandal from leaving a long-term tarnish.

King, the analyst, said it could take a while to tell if HP's brand is diminished.

"If I'm a consumer, do I want to buy products from a company that has committed what looks to be felonious behavior? I don't know the answer to that," King said.


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If nothing else, Hewlett-Packard will have aired in dramatic fashion the kind of corporate dirty work - often aimed at rivals rather than insiders - that "probably goes on more than we know of," said Eric Abrahamson, a professor of management at Columbia University.

"This is a particularly egregious example of it."

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