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SHAKE-UP. HP's Patricia Dunn and Mark Hurd



The HP Way? Hardly

Hewlett-Packard's chairman is stepping down amid a spying scandal, but shareholders may thank her

By Rick Newman

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You'd think there was full-blown system failure at Hewlett-Packard. Chairman Patricia Dunn and two board members have announced their resignations in a widening scandal over leaks to the press and a subsequent investigation that involved spying on directors, employees, and journalists. At least one investigative tactic—falsely posing as HP officials, to obtain telephone records—may have been illegal. This week, California Attorney General Bill Lockyer is likely to file criminal charges. The FBI is investigating, and the Securities and Exchange Commission is probing whether HP violated securities laws. Congress may even hold hearings. Not exactly a banner month for one of America's most esteemed companies.

Investors, however, aren't complaining. In the 10 days following the eruption of the tawdry affair, HP's stock price essentially stayed flat-a vote of confidence, given the turbulence. One reason has nothing to do with the spat on the board: In the trenches, HP has been on a roll, aggressively cutting costs and performing above expectations in all of its business lines. That was reinforced last week when struggling Dell, one of HP's toughest competitors, announced it would revamp its traditional strategy of selling directly to customers-an acknowledgment of HP's market muscle. The boardroom scandal, meanwhile, actually seems likely to resolve a nagging problem: persistent disputes among directors and top execs over the direction of the company, many aired anonymously in the press.

Divisions. The self-admitted chief leaker was director George Keyworth-often whispering at the behest of company executives. And the leaks made it clear there was dissension on HP's board regarding strategy. Such a divided front rattles Wall Street. So Chairman Dunn oversaw an investigation to finger the leaker and halt boardroom chicanery. It took the resignation of Keyworth and his ally on the board, Tom Perkins-not to mention Dunn's unforeseen departure-to finger the offender. But Dunn got her man, appeasing HP's management. "You can see why they were upset," says Eric Johnson, who teaches operations management at Dartmouth's Tuck School of Business and used to work at HP. "They're happy she did this."

The whiff of illegality, however-not to mention the rough elbows, uncharacteristic at congenial HP-meant somebody had to go. Dunn is supposed to remain as chairman until January, though CEO Mark Hurd could move up her departure to salvage the company's image. Hurd has already made another move-little noticed amid the furor to unmask the investigative firms HP hired-which has further reassured longtime HP watchers. The company has designated director Richard Hackborn, a much-admired old-schooler who has been at HP for 33 years, as "lead independent director" beginning in January. HP hasn't explained how a lead independent director is different from a plain old director, but it may not have to: Simply mentioning Hackborn's name, and affording him a status boost, is likely to calm investors and employees. "He's like Ronald Reagan is to Republicans," explains Johnson. "It's a signal that they're going back to the HP way." That would be refreshing for HP and investors alike-a technology company focused on technology instead of damage control.

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