



Book The Big Lie

Spying, Scandal, and Ethical Collapse at Hewlett-Packard

Anthony Bianco
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Recommendation

As corporate scandals go, Hewlett-Packard’s 2006 boardroom imbroglio hardly rises to the level of Enron. No one went to jail, and HP shares quickly recovered. Even so, journalist Anthony Bianco manages to spin an entertaining yarn from this tempest in a tech teapot. Bianco gained impressive access to the main players in the HP battle. He unearths a wealth of telling details, and he offers a contrarian analysis of the “Spygate” scandal, though readers might wonder why they should care about a long-forgotten blowup and whether the evidence supports Bianco’s strong criticism of then-CEO Mark Hurd (since replaced by Leo Apotheker). *BooksInShort* recommends this book to readers seeking a cautionary tale about issues that remain relevant, from the dangers of toxic corporate climates to invasion of privacy.

Take-Aways

- Former Hewlett-Packard leader Patricia Dunn was the scapegoat for “Spygate,” a spying scandal at Hewlett-Packard in 2006.
- While she did play a role, then-CEO Mark Hurd should have taken much of the blame.
- Before joining HP, Hurd was furious to read a leaked story that claimed he was going to be its new CEO.
- Once he was in charge, Hurd prioritized cracking down on information leaks.
- Spygate was Hurd and Dunn’s attempt to put an end to the leaks at HP.
- In January 2006, a CNET web story reported confidential HP information. Upset, Hurd and Dunn set out to track down the source.
- Dunn turned to HP’s security department, which sent her to a Boston investigator.
- The investigator used a Florida firm that engaged in “pretexting” – pretending to be a phone subscriber or employee to get access to private phone numbers, bills and data.
- When pretexting fingered an HP director as the informant, HP’s board fired him.
- When the pretexting ploy became public, criminal investigations and congressional hearings followed. Dunn took the fall; Hurd did not. The US later outlawed pretexting.

Summary

Hewlett-Packard’s “Spygate” Nabs the Wrong Culprit

In 2006 Hewlett-Packard’s boardroom bickering exploded into corporate scandal. The business press leapt on the juicy details of corporate espionage, eager to explore why HP’s brass hired private investigators to hack into the private phone records of both company directors and big-league journalists. When the unsavory spying became public, HP’s reputation suffered a major hit. Spygate, as it came to be called, yielded criminal charges, congressional hearings and new attention to the

dangers of boardroom dysfunction. As a result, HP forced the board's chairman, a self-made tycoon named Patricia "Pattie" Dunn, out of her position. As far as the press, the public and law enforcement were concerned, Dunn was the culprit.

“In this case ‘the big lie’ was the successful conspiracy to load ultimate responsibility for the spying scheme onto former Hewlett-Packard chairman Patricia Dunn.”

While Dunn clearly deserves a share of the blame for Spygate, the scandal wasn't entirely her fault. In truth, HP's then CEO Mark Hurd (the successor to famous former CEO Carly Fiorina) shared Dunn's culpability, but he mostly escaped the scandal, and his star continued to rise. Other than Dunn and Hurd, the pivotal players in the Spygate saga included board member George A. "Jay" Keyworth II, HP's amateurish security forces and reckless outside investigators, various journalists, and, in a big way, board member and legendary venture capitalist Tom Perkins.

“Dunn...was booted from HP's board, vilified in the court of public opinion, pilloried by a Congressional committee and indicted by the state of California on four felony counts.”

Perkins first worked at HP in the 1950s. When he was hired, founder David Packard considered Perkins arrogant and abrasive. Packard assigned Perkins – who had bootstrapped his way from poverty to a Harvard MBA – to HP's machine shop, where he worked a lathe for three months before Packard allowed him to tackle more ambitious tasks. Dissatisfied by “the slow pace of his advancement,” Perkins, a tech genius, left HP and eventually made his mark in venture capital. The firm he founded in 1972 invested in startups – Genentech, Amazon and Google, among others – that succeeded, helping his company turn its \$8 million in original assets into \$400 million in 10 years. Perkins became a “strenuously macho” bon vivant who raced sailboats and collected sports cars. When then-CEO Fiorina invited him to join HP's board for the first time in 2002 (he would subsequently leave and then rejoin the board in 2005), he was 70 years old.

“The removal of Carly Fiorina as HP's chairman and CEO in 2005 was a most improbable act, and not just because it came so soon after her triumph in the Compaq campaign.”

Dunn, an HP director, was quiet and even-tempered. She began as a secretary at Wells Fargo Investment Advisors (WFIA) and moved up the ranks despite her lack of formal training in finance and her restrained personality, which caused many men to assume she was a pushover and a lightweight. Dunn's demeanor masked a determined work ethic and a steely resolve. She helped engineer the \$445 million sale of WFIA to Barclays, where she led Barclays Global Investors. In 1998, HP asked Dunn, who had survived corporate power struggles to amass a fortune worth tens of millions, to join its board as part of a move to professionalize the body – then dominated by founders Hewlett and Packard's relatives. HP recruited Fiorina as its CEO shortly after Dunn joined the board. Dunn had little involvement in that decision except to vote for it. Between 2001 and 2004, Dunn was diagnosed, sequentially, with breast cancer, melanoma and ovarian cancer. She kept working amid doctor visits and aggressive chemotherapy.

A Culture of Leaks

As Dunn battled cancer, Fiorina battled the board. Forceful and domineering, she engineered a proxy fight for HP's rival Compaq. Her “high-handed behavior” and self-promotion began to grate on many directors. In 2004, Fiorina's fifth year on the job, HP's profits disappointed while Dell, IBM and other competitors gained market share. HP's merger with Compaq – entirely a Fiorina deal – went more smoothly than expected, but its hoped-for revenue gains didn't materialize. After a poor second quarter in 2004, Fiorina fired three managers and promised “wildly optimistic” future results. But HP directors began to doubt her managerial aptitude. She got rid of Michael Capellas, Compaq's former CEO. The combination of Fiorina's off-putting personality and HP's flagging performance left her vulnerable to a coup.

“Few CEOs have ever cultivated a high profile as relentlessly as...Fiorina.”

Perkins had retired from HP's board by then, but company director Keyworth traveled to Perkins's estate in England in 2005 and persuaded him to rejoin the board, unite with a faction of the Hewlett family and help remove Fiorina. Perkins returned to a fractious, dysfunctional board that Dunn managed to bring together around its discontent with Fiorina. Dunn worked painstakingly to build board consensus and – with Keyworth and another director – personally presented Fiorina with a memo criticizing her board relations, HP's “competitive position” and its market rigidity. Fiorina seethed during this session but agreed to meet with the full board to discuss their concerns. One week later, *Wall Street Journal* reporter Pui-Wing Tam wrote a front-page story describing that board meeting in great detail. Fiorina felt “violated” by the disclosures. The leaks continued, with stories in *BusinessWeek*, *The Wall Street Journal* and the *San Jose Mercury News* relying on anonymous quotes from Fiorina's supporters and opponents.

“Fiorina...traveled constantly, making dozens of speeches and personal appearances every month, many of which had no direct connection to the business of Hewlett-Packard.”

HP ultimately fired Fiorina. To unseat her, Keyworth and Perkins allied with Dunn, whom they also disliked. They saw Dunn as someone who lacked ideas and expertise, and who was too mired in details and process. Leaks again tainted HP's quest for Fiorina's successor. *The Wall Street Journal*, *Fortune* and *BusinessWeek* all reported confidential details of the search, including the names of leading candidates. A story that identified NCR's CEO Mark Hurd as the leading candidate nearly caused him to reject the job. After Hurd joined HP in March 2005, he instituted a tough policy on leaks. Anyone who talked to a journalist without permission would be canned.

“Carly's regally indignant reaction to the leak poisoned her relations with the board to a fatal level of toxicity.”

Despite Perkins and Keyworth's enmity, Dunn became HP's board chairman. Concerned about pervasive leaks, she sought ways to control the flow of information. She met with HP security specialist Kevin Huska, a former US State Department special agent. Huska directed Dunn to ex-military policeman Ron DeLia, a Boston investigator who worked for HP under contract. Dunn considered hiring the investigative firm Kroll Associates instead, but HP executives talked her out of it. Dunn later said that allowing HP's in-house team to investigate the leaks was a mistake. To learn who had spilled confidential material to *BusinessWeek*, DeLia began searching the phone records of HP's directors. Dunn approved the inquiry and gave DeLia directors' phone numbers. She agreed to name the investigation herself, dubbing it “Project Kona.”

“Had the leak investigation been entrusted to Kroll Associates, it’s entirely possible, even likely, that scandal never would have ensued.”

Even after Project Kona began, leaks continued. In June 2005, *BusinessWeek* reported that the Securities and Exchange Commission (SEC) was investigating Hurd’s sale of NCR stock. This disclosure led Perkins to suggest lie detector tests for board members. After some research, Dunn decided that lie detectors weren’t reliable, but the mere suggestion shows how seriously the board took the unauthorized release of sensitive information. Meanwhile, petty disputes between Dunn and Perkins continued. When Dunn told Hurd that Perkins had a Canon printer, Hurd was angry at the betrayal – and Perkins in turn was furious with Dunn. Perkins bullied Dunn during board meetings only to apologize later, a pattern she likened to domestic abuse.

“HP’s spooks took themselves very seriously, communicating with one another in a semi-literate argot studded with code names.”

In January 2006, Keyworth had lunch with a reporter for the website CNET. The reporter took no notes, so Keyworth “naively assumed that he wasn’t being interviewed.” The reporter later quoted him anonymously in a story about the HP board’s conflicts. Keyworth denied divulging the story. Perkins saw little harm in it, but it upset Hurd and Dunn, who launched the “Kona II” investigation to find the informant. HP’s ham-fisted security team suggested surveillance and Dumpster diving to gather intelligence about board members. As the sleuths futilely plotted a potentially disastrous idea – planting undercover agents as clerks and janitors at CNET and *The Wall Street Journal* – HP’s top PR executive surmised that the tattletale was a director.

“The morally correct thing to do would have been for Hurd to accept responsibility for the errant leak investigation and let the chips fall where they may.”

The leaks persisted. *The Wall Street Journal* reported that HP’s CFO soon would retire and even named two potential replacements. In a near frenzy, HP’s security detail posed as “Jacob,” a confidential source sending secret information to CNET. “Jacob” leaked an email with the name of a new head of HP’s handheld computer group. The security staff even outfitted the email with tracer software so that HP could track it if CNET journalists forwarded it. CNET ran the story but never forwarded the email. The HP security team next sent CNET an email with the name of HP’s new data center; CNET never reported it. HP’s security staff continued to waste time in amateurish fashion, flailing away as “Jacob.” With suspicion centered on Keyworth, HP security tailed him at a Colorado conference, an exercise that yielded nothing. When Keyworth lost his laptop in Italy, HP sent operatives to put out a reward for it, but nothing emerged.

The “Pretexting” Begins

The company’s security team finally nabbed Keyworth through a shady practice called pretexting. DeLia hired the Action Research Group, a Florida firm that specialized in getting phone records from carriers by pretending to be phone subscribers or phone company employees. Generally, corporations need subpoenas to obtain phone records, but pretexting was then so new the federal government hadn’t yet outlawed it (as it did in 2007). Using pretexting, Action Research obtained two dozen people’s phone records. They found that Keyworth called a CNET reporter 14 times in 2005, and the reporter had phoned Keyworth’s wife in January 2006. While pretexting cracked the case, some HP insiders worried about the method. An HP attorney warned in an email that it was “very unethical at the least and probably illegal.” Even so, the same attorney argued that, in the interest of fairness, Action Research should use pretexting to obtain other directors’ phone records. HP’s security team asserted that pretexting was legitimate, though controversial. Dunn claimed to be ignorant of the details of pretexting, and no evidence contradicts her. In another exculpatory detail, she never saw DeLia’s invoices, which he sent directly to HP’s security department.

“Dunn got it at last: She now believed that Hurd had sold her out to save himself.”

Confronted with evidence from his pretexted phone records, Keyworth admitted he was CNET’s source. However, he said the information he divulged was inconsequential. He expected few repercussions, but Hurd, Dunn and others demanded that the board fire him. Perkins considered him a friend and agitated to keep him on the board. When HP ditched Keyworth, Perkins quit, too. Dunn was ecstatic to be rid of her antagonists, but the maneuvering further soured Perkins, turning him into her sworn enemy. He soon exacted his revenge.

“In the court of popular opinion, Dunn was still the Chairman Who Spied on Her Board.”

Unbeknownst to HP’s board, *Newsweek* reporter David Kaplan was writing a book, *Mine’s Bigger*, about Perkins and his 300-foot yacht. While sailing to Italy, Perkins seethed to Kaplan about Keyworth’s firing, Dunn’s “betrayal” and HP’s theft of his phone records. He told Kaplan HP spied on its directors. Perkins hired a well-connected Washington lawyer to spread the word and reported HP’s pretexting to the Department of Justice, California’s Attorney General, the Federal Trade Commission and the Federal Communications Commission. As evidence, Perkins offered various documents, including AT&T’s confirmation that someone sent him pretexts and email exchanges with Larry Sonsini, HP’s outside counsel. A *Wall Street Journal* reporter learned of the investigation, and details exploded, revealing that HP hired Action Research to pretext directors and nine reporters, including staffers at *BusinessWeek*, *The Wall Street Journal*, CNET and *The New York Times*, perhaps assuring that the press would view HP unsympathetically.

“I don’t go behind people’s back and stab them...I’ve never done it to anybody I know of. I’ve fired people, but I stabbed them in the chest, not the back.” (Pattie Dunn)

As media coverage of Spygate grew, Hurd seemed to make a conscious decision to throw Dunn under the bus. Dunn had followed Hurd’s wishes in finding informants, but HP let Dunn become the scandal’s public face. She created the impression to reporters that it was her project. *Newsweek* ran a decidedly unsympathetic cover photo of her, sealing her apparent culpability. Federal and state investigators launched criminal investigations into pretexting. Congress convened hearings and Perkins demanded Dunn’s resignation. Dunn had become a distraction, and the board voted for her ouster. The government indicted Dunn, making her HP’s official fall guy. No one examined Hurd’s role.

Some experienced reporters couldn’t cover the scandal because they were pursuing legal action against HP for pretexting them. HP settled a civil suit brought by the California Attorney General. Despite Dunn’s role as scapegoat, the prosecutor dropped criminal charges against her. But Perkins continued to vilify Dunn. In his autobiography, *Valley Boy*, Perkins played up Dunn’s role in Spygate while understating Hurd’s culpability. In truth, Perkins exaggerated Dunn’s role while repeating the “big lie” that Spygate was all her doing. On further review, Yale professor Jeffrey Sonnenfeld said that Dunn, ever deliberate and conscientious, seemed to stand for transparency and good corporate governance. Hurd, for his part, told the present author Bianco that this book is rife with “inaccuracies and errant conclusions,” but he declined to identify them.

About the Author

Anthony Bianco wrote for *BusinessWeek* for 27 years, producing more than 50 cover stories. He also wrote *Wal-Mart: The Bully of Bentonville* among other works.
