



Hewlett-Packard Ethics Chief Tackles Spying Aftermath (Update1)

By Connie Guglielmo

April 24 (Bloomberg) -- Focused on boosting sales and cutting jobs over the past two years, Hewlett-Packard Co. Chief Executive Officer Mark Hurd paid scant attention to the company's probe into boardroom news leaks.

It's a mistake he says he won't repeat, and he's counting on Jon Hoak, his former general counsel at NCR Corp., to help him. Hurd hired Hoak as chief ethics and compliance officer Oct. 11, two weeks after being chastised on Capitol Hill for what he called a "rogue operation" that had company investigators pawing through trash and obtaining personal phone records to find out who leaked sensitive board discussions.

"The events of last year were a wake-up call," said Hoak, 58, in a March 29 interview at the world's largest personal-computer maker in Palo Alto, California. "We can't afford to have another significant ethics and compliance issue."

In his six months on the job, Hoak has doubled the compliance staff to 12, changed how investigators are hired, set up two committees to review policies and traveled to 15 countries to educate employees. He's also readying a report mandated by the California Attorney General and due by July that details efforts made by Hewlett-Packard to repair its reputation.

The scandal pushed Hewlett-Packard out of the top 10 ranking of U.S. companies noted for corporate governance, diversity and fairness to employees for the first time in eight years, according to a survey of 1,100 companies by Business Ethics magazine. It also led the U.S. Federal Communications Commission to issue new rules this month requiring phone companies to give customers a password to access their records.

'Overworked Staff'

"The failure at HP was a failure of ethical leadership, not headcount," said James Post, a professor of management at Boston University. "The fact that they had only six on staff before the 2006 scandal suggests an overworked staff, but I doubt that a few more people in the ethics department would have deterred the board chair, the head of ethics, and the general counsel from their chosen investigatory path."

Like most companies, Hewlett-Packard investigates a range of incidents, from reports of possible sexual harassment and corporate theft to concerns about contract negotiations, Hoak said. It often hires outside investigators.

The number of staffers working on ethics and compliance varies among companies, said Post. International Business Machines Corp., with almost 356,000 employees, has a chief trust and compliance officer with eight people reporting to her, John Bukovinsky, a spokesman for the Armonk, New York-based company said. Coca-Cola Co., with 71,000 employees, has a staff of 13 in its ethics and compliance group, said spokesman Dana Bolden.

'Almost Nil'

Hoak said the chances are "almost nil" for a repeat of last year's debacle, when the probe into boardroom leaks spiraled into scandal in September after the company admitted some tactics were

unethical and possibly illegal. Chairman Patricia Dunn was ousted, general counsel Ann Baskins quit and Hurd admitted he hadn't actively monitored the leak hunt.

Hoak joined the computer maker after Hurd told a U.S. House committee that investigators hired by the company used fake identities to get personal phone records of directors, employees and reporters, a practice known as pretexting. They followed directors, planted software on reporters' computers to monitor e-mails, and got call logs of executives including Hurd and former CEO Carly Fiorina.

"No one is proud of what happened last year," Hurd, 50, told shareholders at the annual meeting last month.

At a two-day meeting of Hewlett-Packard's top 150 managers in San Jose, California, in March, Hurd said building a world-class ethics program was among his top 12 priorities, Hoak said.

'Right Questions'

"They are asking the right questions of themselves and taking the right steps," said Patricia Harned, president of the Ethics Resource Center in Washington, a non-profit which promotes organizational ethics, after being briefed by Hoak. "But it will be some time before they will be able to make change in the culture."

Shares of Hewlett-Packard, also the world's largest printer maker, rose 24 cents to \$41.65 at 4 p.m. on the New York Stock Exchange. They have climbed 14 percent since the scandal broke Sept. 4 as the company won back the PC market lead from Dell Inc.

The scandal led to a \$14.5 million December settlement with California over the use of pretexting. Hewlett-Packard must submit a report to the attorney general no later than July 31 outlining improvements to its investigative practices. If the state decides those efforts don't go far enough, it may recommend a state court take further action, according to the 12-page, Dec. 7 settlement.

'Bunch of Cowboys'

In his early days reviewing Hewlett-Packard's programs, Hoak found that last year's scandal was "an aberration rather than an indication of a culture problem or a bunch of cowboys running a company," he said. "Our processes were loose."

Employees weren't aware of programs already in place to report questionable business practices, including an 800-number and e-mail address for anonymous tips, Hoak said. So he printed posters, set up training with senior managers and beefed up information about the programs on the online employee newsletter, called HPNow.

Hoak plans a Webcast in May to ensure all 156,000 employees adhere to the company's standards of conduct and ask questions when they're unsure. Yet "the sheer scope of HP's operations makes the implementation of any policy a formidable task," said Post, the Boston professor.

Hewlett-Packard has also reduced to 10 from dozens the number of outside contractors hired to do investigations. Contract firms now must vet their plans with the company and notify it if they make any material changes, Hoak said.

Ethics Committee

Hoak also chairs a new Ethics and Compliance Committee that meets quarterly to review investigations and discuss policies. It reports to the audit committee of the board, which typically oversees ethics and compliance at most companies.

In addition to Hoak, Hurd hired former federal prosecutor Michael Holston as general counsel to replace Baskins, joining a growing list of companies including Boeing Co. and Lockheed Martin Corp., who've tapped former government officials to help ensure ethical and legal lapses don't recur.

Holston, 44, served as an outside lawyer for Hewlett-Packard for more than 10 years. He plans to reorganize the legal department, which was "tainted" by last year's events, he said in a March 30 interview.

Adding former government officials to a company's roster brings `` a certain credential of integrity to the process," said Susan Hackett, vice president of the Association of Corporate Counsel in Washington.

Hurd told the House committee in September he didn't pay enough attention to the boardroom probe and didn't read documents he should have.

While CEO of NCR, the Dayton, Ohio-based maker of automated teller machines, Hurd would `` spend a lot more time reading detailed financial reports from the businesses than he would on the ethics and compliance stuff," said Hoak. `` He's learned his lesson and by God he's going to read these things."

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