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## COMMUNICATIONS MAY HAVE FAILED H-P

By Richard E. Nicolazzo

For many years, I have been espousing the concept that senior communications professionals -- such as vice presidents of corporate communications or investor relations -- should be ex-officio members of boards of directors in major publicly traded and many private companies.

The Hewlett-Packard fiasco that has unfolded before the eyes of a stunned business world (and even Congress) once again proves the point.

Time and time again, we see boards making enterprise-wide decisions that blow up in their faces. A good example is the recent rash of cases involving the back-dating of option grants. Apple Computer comes to mind.

I have no doubt that Patricia Dunn, former H-P board chairwoman, was genuine in her concern about board leaks to the press.

No one likes to see sensitive and confidential corporate information plastered on the front page of the *New York Times* or *Wall Street Journal*.

What remains clear to me, though, is that even the savviest corporate executives and many board members are lacking in what I call "communications awareness and common sense."

Far too often, decisions are made at the board level that will negatively impact a company or institution. Unfortunately, in most cases, communications experts are typically brought in to deal with flawed business decisions and strategies after these decisions have been made and the damage done.

Over the course of my 30-year career, I have been called many times by general counsels and senior corporate communications officers who need assistance because a senior management or board-level decision has backfired.

In many cases, I have been told, "...what we did was legal." My response is usually something like "...that may be so, but is what you're doing right, and how will those actions be viewed by your key audiences?"

Still, you hear reports of senior executives and board members telling their corporate communications officers to "just stonewall the press." In some cases, this strategy is effective, but misrepresenting the facts simply never works. Ultimately, the truth comes out.

Ms. Dunn, even without the help of PR folks, continues to create her own story. In her testimony to Congress on September 28, she said she was given ironclad assurances of the legality of the methods used in the company investigation and that the word "pretexting" - impersonating people to obtain their records - never cropped up in the

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conversations.

I subscribe that Ms. Dunn, the rest of the board, the CEO, and the legal folks would have been well served to have a thoughtful and market-savvy communications executive at the table.

If they did, that person could have told them that any one of the roads they were contemplating would be like driving a car off a cliff.

A good communications counselor - inside or outside the company - could have advised Ms. Dunn what was happening at H-P was wrong, and if the news media ever got wind of any kind of questionable corporate snooping, public exposure of this behavior would create a major corporate scandal.

Would that counsel have stopped the clandestine operation? If the communications professional had ex-officio status, I contend there is a good likelihood that better judgment would have prevailed. Instead, the company charged ahead and the investigative methods used by H-P spiraled out of control.

In the final analysis, H-P's reaction to the leaks was born of paranoia. Board politics - and even leaks - have been part of our business culture.

Clearly, it's the fiduciary responsibility of board members to keep the proceedings of their meetings private and confidential. However, leaks are not the end of the world. In fact, sometimes leaks can actually help a company. In many cases, these leaks do not damage the company's business or reputation. In the specific case H-P, the company seemed to be doing a nice job of increasing its market share and generally improving its business prospects.

Further, the current scandal has not affected H-P's stock price. According to Damon Darlin of the New York Times (Sunday, October 1, 2006), "By any measures, the company so far has escaped any serious damage. Its stock, about the only visible barometer of public perception other than retail sales and late-night talk-show jokes, is as strong as it was before the spying operation was revealed in early September. The stock closed on Friday at \$36.69, close to its 52-week high of \$37.25, almost unchanged during a month of unrelenting reports of detectives obtaining personal phone records, rooting through garbage, following directors and journalists - spying on one while at Disneyland - and planning to infiltrate newsrooms with spies masquerading as janitors or clerks."

Wall Street now looks at three criteria for publicly traded companies: growth, earnings and governance.

While H-P may still have a powerful and colorful history, this chapter of corporate behavior will become the poster child for poor corporate governance that appears to have occurred at the highest levels.

The story isn't over, and how H-P responds going forward will have far reaching implications for its future.

In my view, a good communications professional could have told the board about the implications of its decision-making right at the beginning.

And if the board had listened, H-P wouldn't be where it finds itself now.

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