

# How the HP Board KO'd Carly

**CARLY FIORINA**  
thought board  
members were  
meddling and  
wanted them to  
back off. That's  
when they asked  
her to step outside.  
She never saw the  
knockout coming.

**BY CAROL J. LOOMIS**



**CEO Carly Fiorina**  
in January, just  
before the  
crunch

## **It seemed like the corporate**

equivalent of Clint Eastwood's *Million Dollar Baby*: In a woman-to-woman confrontation that never could have happened in the male-dominated executive world of ten years ago, Hewlett-Packard director Pattie Dunn, who in her day job is vice chairman of Barclays Global Investors, knocked Carly Fiorina out of her post as CEO of HP and took over as the nonexecutive chairman of the board.

Or at least that's the way Hollywood might have told it. Indeed, Dunn was the headliner in what happened. But behind the scenes—or maybe we should say in the corners of the boxing ring—other powerful figures assisted in this dramatic heave-ho. FORTUNE doesn't know all the details. But from many sources, we know enough to make it clear that Fiorina's leaving was consistent with her strong, controlling personality: She didn't go quietly.

And now, of course, chairman Dunn and her board are stuck with cleaning up the mess. Just to begin, they must find a new CEO, one willing to step into this huge company with \$80 billion in revenues and tackle one of the world's toughest corporate jobs. FORTUNE delineated the headaches of that position in its very recent cover story, "Why Carly's Big Bet Is Failing," published two weeks before Fiorina was fired on Feb. 8 (see fortune.com). The core difficulty: HP's controversial 2002 acquisition of Compaq produced a financially skewed,

profit-challenged giant that is a beast to manage. And “beast” seems apt. For both HP’s board and the new CEO, the company’s structure is the elephant in the room.

The action that got the board to this unenviable spot goes back to last year’s third fiscal quarter, which ended July 31. HP badly missed its earnings targets, adding one more episode of not-making-its-numbers to a history neither Fiorina nor the board was proud of. Worse, Fiorina carried out what looked like a public execution, summarily firing three senior sales executives whom she blamed for the miss.

Thus autumn found the HP board on edge. Anybody looking hard at the Compaq merger had to know it had fallen far short of expectations. That was the long-term picture, and now here was another earnings miss. Any number of executives had left, some fired, some leaving of their own volition to take other jobs. From a board member’s standpoint, things were not looking good—not good at all.

It appears that from then on the board was in an activist mood. The marquee name in this drama, without a doubt, is Dunn, who has been a director since 1998. She is a spirited character with an unusual history. Now 51, she was the red-haired daughter of a vaudevillian and a Las Vegas showgirl and grew up in the company of creative folk like Nat King Cole and Walt Disney. When she graduated from the University of California at Berkeley in 1975, she dreamed of whisking herself to someplace like Istanbul and being a foreign correspondent. But her father had died and her mother was ill. To help her family, Dunn took a job as a temporary secretary at Wells Fargo, which later sold her division to Barclays. She wouldn’t accept a permanent position because she didn’t want to work for a bank: “I thought I’d rather take chloroform and die,” she told FORTUNE in 1999. By that date, though, she was the secretary who had risen invincibly to chairman of Barclays Global Investors, a large money manager. We named her No. 11 on the 1999 list of the 50 most powerful women executives in America. Fiorina headed the list, of course, as she did all the years from its first run-



DUNN, now chairman, told Fiorina she was out.

TIMOTHY ARCHIBALD

**Dunn literally read the agenda to Fiorina. [It was] the boardroom version of being read THE RIOT ACT.**

ning, 1998, through 2003. (Meg Whitman of eBay got the top spot in 2004.)

Around three years ago Dunn was diagnosed with breast cancer and melanoma, and she stepped down to vice chairman at Barclays and cut back on her work a little on the HP board while being treated. But by last fall she was fully engaged.

From all appearances, the board was then still lined up behind Fiorina. We know that most of all from an amazing disclosure in HP’s proxy statement, filed on Feb. 11—a revelation that makes the board’s recent behavior look downright schizophrenic. It seems that some weeks after the end of HP’s fiscal year on Oct. 31, the board’s human resources and compensation committee, headed by Verizon president Lawrence Babbio, awarded a special \$90 million bonus to employees. Why? For “HP’s performance” in its fiscal fourth quarter, says the proxy. In other words, the board (or at least this committee) congratulated the troops for executing well during that quarter and for drowning out the terribly bad third-quarter results. The primary honoree: CEO Fiorina, who got \$567,000 of the pot.

Yet in early February, not three months later, she was out. The reason again was execution: This time, the board was saying that she’d done a sloppy job of it and that it wanted to address the problem by moving up certain executives to help her. She resisted—and *ka-pow!* As Pattie Dunn says, “The board asked for her resignation, and she accepted.”

Does not all this qualify as schizophrenic? (Leave aside the fact that a bonus for quarterly performance may be the worst idea that has ever come down the boardroom pike.) A partial explanation could simply be timing: At the moment of the bonus, the board’s temper probably just hadn’t reached the boiling point.

Certainly in December Fiorina seemed, on the surface at least, totally confident about her job. We know because she came to FORTUNE for an interview on Dec. 9, fresh from an analysts’ meeting in Boston at which her executives had talked unceasingly about plans to “execute.” She told us she didn’t need a chief operating officer and didn’t think one was wise because a “CEO had better have his or her hands on the wheel.” Ardently, in words that seem poignant today, Fiorina also talked about how she relished what she was doing. The never-ending rumors that she would run for office or take a job in politics, she said, betrayed a wrong understanding of the situation: “I am the CEO of Hewlett-Packard. I love the company. I love the job—and I’m not finished.”

But she was, rudely, two months later. On the way to that outcome, a few remarkable vignettes illuminate the struggle between her and the board. One occurred in early January. The board had a three-day planning meeting in San Francisco coming up on the 12th. Fiorina, as chairman, would ordinarily have set the agenda; instead, Patrice Dunn worked with other directors to draw up their own agenda, laid out on a single page of paper and reflecting their concerns. Dunn asked Fiorina to meet with her and two other directors, Richard Hackborn, a retired HP executive, and physicist George Keyworth. When the four were assembled, Dunn literally read the agenda to Fiorina. One cannot exactly imagine the very proud Fiorina enduring this scene—this boardroom version of being read the riot act—but by all accounts she did.

Hackborn’s presence at that gathering was very important. Highly influential on the board, he had been on the search committee that chose Fiorina as CEO in 1999 and later had backed her plan to buy Com-

FORTUNE.COM

**SUBSCRIBERS ONLY** Read more online, including “Why Carly’s Big Bet Failed” and “How Much Did HP Really Pay for Compaq?”

paq. But by this January his support clearly was waning. It couldn't have helped that he, like Dunn, came from the HP side of the merger and was having to face the damage it had done to HP shareholders.

The board meeting went ahead as scheduled and included a venture capitalist, Tom Perkins of Kleiner Perkins, who had once been a director and was scheduled to be voted back on the board. There was a meeting of the minds on at least one big decision: An announcement went out on the 14th that Vyomesh Joshi, the highly-regarded head of the printer division, would take over the personal computer business as well.

But the board couldn't agree on another reorganization proposal. Some directors felt strongly that the "enterprise" side of HP, which encompasses servers and storage, should be put under Shane Robison, the company's chief strategy and technology officer. It appears that Fiorina was greatly opposed for at least two reasons. First, Robison, though well-thought-of at HP, had never run a business. Second, Fiorina is reported to have argued that it was the CEO's prerogative, not the board's, to make decisions about managers. She argued that if Robison did not succeed in the job he was proposed for, she would be blamed. In the end, Fiorina and the board could not agree, and the meeting adjourned.

But just over a week later, on Monday the 24th, came two jolts from the press: FORTUNE's cover story was published, and the *Wall Street Journal* ran a piece carrying reports from inside the board that the directors were threatening to take away responsibilities from Fiorina. She was furious about the leaks. A telephonic board meeting was quickly scheduled, in which both Fiorina and Dunn deplored the loose lips. Perkins owned up to having talked to the *Journal* but claimed the reporter had the story before she got to him. No other director came forward to confess. The meeting was complicated, as well, by the fact that two directors, Babbio and Robert Knowl- ing, had talked on the record to FORTUNE. At the end, the board reached two conclusions: First, directors should never, ever talk to the press. Second, the board needed quickly to meet face-to-face to both clear the air and get back to its unsettled issues.

That meeting convened in Chicago on Monday, Feb. 7. The matter of Robison was once again on the table, and it was once again discussed contentiously, with Fiorina unbending in her position. Then the directors asked her to withdraw so that they could

move into executive session. They talked for three hours. At the end, two people—one of them Pattie Dunn, the other unknown to us—asked Fiorina for her resignation. They got it. The official vote by the directors came later, on Tuesday afternoon.

Obviously this account leaves a lot of questions unanswered. But the conclusion of most interest here is that Fiorina appears never to have been given the stark choice of going along with her board or losing her job. Maybe those three hours of private talk convinced the board that they just had to make a change. HP isn't saying. It declined FORTUNE's requests to interview directors for this story and issued a statement that Fiorina lacked the "skill sets" to move the company forward.

**The board cannot attract a first-rate CEO if it is THREATENING TO HANDCUFF him (or her) to Fiorina's strategy.**

And now, as HP looks for a replacement, the structural problem—that elephant in the room—complicates the hunt. Talking to analysts and the press on Feb. 9, chairman Dunn and HP chief financial officer Bob Wayman, who has been named interim CEO, made it clear that the board intended to stick with Fiorina's strategy of running HP as a soup-to-nuts tech company. This means the board is saying it will not do some of the things that some Wall Streeters want—a spinoff of the highly profitable printer business, most specifically. Nor does the board seem inclined to ditch any of HP's struggling computer businesses.

Yet a board cannot attract a first-class CEO if it is threatening to handcuff him (or her) to some strategy he would think a loser. So it is probable that down the road, the strategy could change in line with what a new CEO thinks it should be.

To recruit this first-class CEO, the HP board has organized itself into a committee of the whole, which is highly unusual. But the directors may be remembering that a small committee chose Fiorina and thinking of that old expres-

sion "Once burned, twice shy."

One thing is sure: The board needs to move fast. Sensing a weakened enemy, HP's competitors are on the attack. On Feb. 16, the same day that HP was reporting mid-quality first-quarter earnings, its hated rival, Sun Microsystems, ran full-page newspaper ads addressed to HP customers. The ads listed every HP and Compaq strategy the two companies had ever relied on, dismissed all as disappointing, and called on the customers to join the good guys at Sun.

It is the bet here that the board will hire an outsider as CEO—which it has in fact said is its inclination—and that his name will not be Michael Capellas. The ex-head of Compaq, who was No. 2 to Fiorina for a while at HP and is now CEO of MCI, has been widely mentioned as an able, tech-savvy candidate. But for a board as shell-shocked as HP's must be, Capellas does not look like a comfortable choice. A much more likely prospect might be someone from IBM, such as John Joyce, head of that company's service operations.

In discussions about this CEO search, people often refer to IBM, saying what HP needs is a "Lou Gerstner"—a talented executive not necessarily from techland but with strong related experience. A prospect with those credentials might be W. James McNerney, who lost out to Jeff Immelt at GE and has since 2001 been running tech-heavy 3M. An executive recruiter says McNerney fits the "best athlete" category—headhunter jargon for an executive capable of running almost anything because his innate abilities set him above the crowd. This same recruiter also issues a reminder that the winning candidate wouldn't have to be from the U.S.

And Carly Fiorina's future? Politics might look downright appealing at this point. But clearly the rumble at HP has dented every prospect she has. Still, it is interesting to look at the PR person who is helping Fiorina cope with the deluge of press calls: her longtime friend Kathy Fitzgerald, who worked with Fiorina at Lucent in Fiorina's pre-HP days. In fact, FORTUNE dealt with Fitzgerald in 1998 when we decided that Fiorina had the stuff to be No. 1 on our first list of the most powerful woman executives. That ranking helped land Fiorina the HP job; now, when she could use another gig—though \$21 million in severance pay hardly leaves her bereft—she once again has Fitzgerald at her side. So don't count Fiorina out. ■

REPORTER ASSOCIATE *Oliver Ryan*  
 FEEDBACK *cloomis@fortunemail.com*