

Was HP's board overconfident about cutting ties with Mark Hurd?

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A year ago, Hewlett-Packard appeared to be invincible. Then a letter arrived at the company's Palo Alto headquarters June 29, 2010, addressed to Mark Hurd.

That letter, which accused the then-CEO of sexual harassment, set in motion a chain of events that resulted in Hurd's shocking resignation six weeks later. While many of the details about the split remain murky, one thing is clear a year later:

HP paid a steep price for its decision to cut ties with Hurd, steeper than I suspect its board imagined at the time.

People still debate whether the HP board did the right thing by pushing Hurd out. But HP's stock is trading at \$35.09 a share, down from \$44.30 a year ago. And the image of an unstoppable juggernaut Hurd spent five years cultivating has been replaced by a company plagued by doubts about its performance.

What's astonishing to me is how much HP's board underestimated the impact of changing CEOs.

That HP faced serious challenges didn't become apparent until several weeks after Hurd's successor, Léo Apotheker, and the new chairman, Ray Lane, took charge, the two men now say.

"I don't think we saw these looming issues," Lane said in an interview.

Cost of departure

Lane notes that the company remains strong in most areas. And he argues -- and many analysts agree -- that Apotheker has articulated a compelling vision for the future of HP, based around cloud computing.

"We know what Mark did well," Lane said. "What Léo does well is that he can synthesize enormously complex systems into ideas and a strategy that everyone can understand."

But the change in CEOs cost HP crucial time and momentum. The HP board's overconfidence that this change would be seamless, I believe, helped Apotheker's tenure get off to a rocky start, giving him an overly optimistic view of the company.

During talks that led to his departure, the board apparently told Hurd the company wouldn't skip a beat if he left, according to a former senior HP executive.

"They said our brand is up, market share is up, our people are great, our strategy is great," this person said. "We are so strong now, we're not only going to survive, but thrive without Mark Hurd. I think they felt bulletproof."

And on the day HP and Hurd announced his resignation, the company raised its projections for the company's quarterly earnings.

"Mark Hurd left our organization with an extremely strong strategy," said Cathie Lesjak, HP's chief financial officer who was named interim CEO that day. "I don't see motivation to change it."

To its credit, HP's board had recognized the need to shift long-term priorities, from the cost cutting and acquisitions that defined the Hurd tenure, and focus on developing a strategic vision to increase revenues.

And it thought it had just the man for the job -- Mark Hurd. Before the scandal erupted, the board and Hurd were negotiating a new employment contract.

The sexual harassment charge scuttled those talks. The board determined the allegations from Jodie Fisher, an actress and former HP marketing consultant, were without merit, but claimed it found some expense report irregularities. Hurd and HP announced his resignation Aug. 6.

During the next few months, some problems began to bubble up. First, the consumer PC unit was facing threats from the unexpected success of Apple's iPad as well as softer consumer spending. And second, HP's services business was having a hard time adapting to shifts in the competitive landscape.

It's hard to know whether Hurd would have recognized these issues sooner and addressed them more aggressively. But with Hurd gone, the warning signs were missed.

Instead, HP insisted all was well. Those assurances prompted HP's second-largest shareholder, Dodge & Cox, to buy more stock.

"We concluded that the company's long-term opportunities remained intact and there was not a significant change to the key risks faced by the company," the firm said in an Oct. 25 letter to investors.

Apotheker started Nov. 1 and echoed that confidence during his first earnings call, Nov. 22. Apotheker raised earnings guidance for the fiscal year, announced he was reinstating raises for HP employees, and said the company would invest more in research and development, an area that lagged under Hurd.

Six months later, Apotheker reversed course and cut earnings guidance for the year. There was a management reorganization, several notable departures among high-ranking executives, and an overhaul of the HP board.

"In the short term, it's been very frustrating," said Brian Marshall, an analyst at Gleacher & Co. "What did he learn that he did not know in the first 120 days?"

Addressing the future

Lane is confident that Apotheker and HP are moving swiftly to address the short-term issues involving consumer PCs and the services business.

In addition, Lane believes the company's cloud strategy is a key step toward the long-term challenge of developing a strategic vision for the company.

Andres Boisvert, a longtime software executive who knows both Hurd and Apotheker, criticized HP's board for not being more vigilant during the transition. While that handicapped Apotheker at the start, Boisvert is certain Apotheker has both eyes wide open.

"As witnessed by the statements that Léo made in the first few months on the job, I have to assume that he did not know the real state of the company," Boisvert said. "I believe he does now."

Lane said criticisms of Apotheker were premature and unjustified. Lane said the pair inherited a company experiencing major transitions.

"I do see it as a phase change," Lane said. "It's not how I would have characterized it on day 2 on the job."

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