

HP fires second CEO in 2 years; Whitman in charge

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In this March 15, 2011 file photo, Hewlett Packard Company CEO Leo Apotheker, speaks during an interview in San Francisco. Hewlett-Packard is set to name Meg Whitman, the former eBay CEO and California candidate for governor, as its new CEO, according to published reports Thursday, Sept. 22, 2011. Whitman's appointment would be an embarrassing end to Leo Apotheker's 11-month stint as HP's CEO. (AP Photo/Paul Sakuma, file)

(AP) -- Hewlett-Packard has performed another extreme act of corporate remodeling, firing its CEO Leo Apotheker after just 11 months and replacing him with billionaire businesswoman and political aspirant Meg Whitman. Yet it's done little to convince investors that the company has its house in order.

HP has now removed two CEOs in two years, and the stock has dropped

precipitously, shedding \$60 billion of HP's market value. Based on shareholder reaction to Thursday's CEO shuffle, more punishment is likely in store.

Mark Hurd was forced to resign a year ago in an ethics scandal, and on Thursday HP fired his successor, Leo Apotheker, after a string of disappointing earnings reports and the botched handling of key strategy announcements.

He was replaced by former eBay chief Meg Whitman, who brings celebrity appeal and the sheen of a dot-com-era star who transformed eBay Inc. from scrappy startup to Internet-auction powerhouse.

The decision was the kind of hasty, headline-grabbing move that Silicon Valley watchers have come to expect from HP as it muddles through a very public identity crisis with an unpredictable board and the hardest job in technology to fill.

It was another dizzying turn of the executive merry-go-round at a company whose legendary leadership issues are straining HP's sprawling technology empire, which includes the world's biggest printer and PC businesses.

Shareholders were impressed by reports that leaked Wednesday about Whitman's candidacy for the job. But those gains were largely wiped out Thursday when fears set in that HP's strategy is still deeply flawed.

It's not what HP had in mind. Swapping Apotheker, who has now been ousted from two high-profile CEO jobs in two years, for Whitman was designed to stem investor fury over a series of questionable strategy moves.

HP's chairman, Ray Lane, said Apotheker's dismissal was caused by

several factors.

"You don't deliver a quarter, you don't deliver another quarter, then you make some important announcements that are communicated poorly - it was incremental," Lane said on a conference call. Whitman was on the call, but Apotheker was not. "Then you have to make the tough call of, how long do you go along with that? Do you help? Do you surround? Or do you replace?"

Whitman is a billionaire who is best known for the decade she spent building eBay and her unsuccessful run last year for California governor.

Her star power could be an asset for a company that struggled to gain credibility under Apotheker, who was previously little-known outside of the business-software world. HP is no stranger to celebrity CEOs. But Carly Fiorina's run at the company's helm, from 1999 to 2005, ended in shambles.

Despite Whitman's success at eBay, she is untested when it comes to running a company that is in as many businesses as HP. Another turnaround effort earlier in her career, at FTD, the iconic flower-delivery company, ended with Whitman quitting after two years and declaring that the company is "not fixable." Many analysts have said the same thing about HP in its current form.

On Thursday, she defended her predecessor's most controversial moves. She said a decision on PC division's fate will be made by the end of the year.

Analysts are mixed about her prospects.

"She built up a one-trick pony, an online auction site, and she oversaw the growth of the company, but we are talking about a situation where

someone needs to come in who has a technological background, an engineering and scientific background," said Steve Diamond, an associate professor at Santa Clara University School of Law. "And that is way outside of her skill set."

Diamond said the decision to change CEOs so soon points to continued disarray on HP's board, long a target of critics for the chaos it's caused at one of Silicon Valley's oldest and largest companies. Infighting and ego-driven drama has long plagued the board, from revelations in 2006 that HP had spied on directors and journalists to ferret out the source of leaks, to last year's dismissal of CEO Mark Hurd in an ethics scandal.

"There's no question the board is off the rails - they need a smaller, tighter board that's committed to the idea of what the company does," Diamond said. "But they have a lot of people on the board from different industries. The tough job will be getting the board on board."

Whitman's appointment Thursday was Silicon Valley's worst-kept secret. Deliberations leaked out a day earlier to the delight of investors, who drove up HP's stock and apparently gave HP's board the push it needed to oust Apotheker.

HP's board met Thursday to finalize the change, having decided that Apotheker had lost the board's confidence in his ability to lead HP long-term, a person familiar with the matter told The Associated Press. This person was not authorized to speak on behalf of HP and spoke on the condition of anonymity.

Lane, the HP chairman, defended Apotheker's firing and Whitman's quick selection.

The board "objectively evaluated whether he was the right guy to operate the business, and we came to the conclusion that he was not," he said on

the conference call. "And we chose someone who is a great operator, who executed in her business for years and has a track record of leadership. I can't think of a name out there over Meg that I would pick to be CEO of this company."

Apotheker was also forced to resign from HP's board. Lane's position has been elevated. He was non-executive chairman. He is now executive chairman.

An HP spokesman said that Apotheker, Whitman and Lane were not immediately available for interviews.

Whitman's likely arrival was greeted warmly Wednesday, when investors drove the stock up more than 7 percent on reports she was being considered for the job. But most of those gains evaporated Thursday, when fears set in that the company's strategy is still in need of repair.

Cathie Lesjak, HP's chief financial officer, added to those fears when she disclosed that she isn't sure HP can hit its revenue target of \$32.1 billion to \$32.5 billion in the quarter ending Oct. 31. She reaffirmed earnings guidance. She blamed weakness across consumer and commercial markets, particularly in Europe.

HP's stock fell \$1.18, or 4.9 percent, to close at \$22.80 on Thursday. It fell another 7 cents in after-hours trading. The declines were worse than the overall market. The Dow Jones industrial average plunged 391 points, or 3.5 percent, on worries that the global economy is headed for another recession.

Boosting HP's sagging stock price will be an urgent problem for Whitman.

HP's market value has dropped by \$60 billion since CEO Mark Hurd

was forced out in August of last year over an ethical scandal. Hurd's departure set the stage for Apotheker's appointment as CEO and Lane's appointment as chairman.

Proving she can instill order in a disordered company is another pressing issue.

EBay, when Whitman inherited it, was a star on the rise. HP is struggling with bloat and hasn't decided on a clear direction. It knows it wants to be more like IBM Corp., but has a long way to go to complete the transformation.

Steering a startup through a period of growth is markedly different from running an established company that's fallen on hard times, experts say.

Whitman touted her business credentials on the campaign trail in her unsuccessful California gubernatorial bid. She spent more than any candidate for a statewide office in U.S. history on the campaign -at least \$174 million, most of it her own money.

She became a respected executive for her work at eBay, transforming it from a website with a few dozen employees and less than \$100 million in revenue into an industry heavyweight with thousands of workers and billions in sales.

But her record as CEO also includes a lesser-known episode that paints a different picture of her abilities to quell a company in disarray. Whitman's time at FTD in the 1990s was her most high-profile turnaround attempt. It did not end well.

Whitman has rarely spoken about her time at FTD. It's an imperfect comparison to HP, but Whitman was brought in to the company in 1995 by her former colleagues at investment firm Bain & Co. to spearhead a

major transformation. She was supposed to stay five years, but ended up quitting after two, citing investors' unrealistic goals.

"This company is not fixable, at least not by me," Whitman wrote in her book, "The Power of Many." She calls her tenure there "probably the most frustrating and, ultimately, least successful executive experience of my career."

Other types of concerns have been raised about Whitman.

She was named to HP's board this year as part of a sweeping overhaul under Apotheker and Lane. They were supposed to be steady hands. But almost immediately, corporate governance experts began crying foul. They took issue with the fact Whitman's hiring by esteemed venture capital firm Kleiner Perkins Caufield & Byers, where Lane works, was announced a week after she was formally elected to HP's board.

Several unflattering incidents helped scuttle her gubernatorial campaign.

She was revealed to have shoved an eBay employee during a disagreement, which led to a six-figure settlement. Whitman said the altercation was an anomaly and taught her to always be professional. It was also revealed that her former housekeeper of nine years was an illegal immigrant.

To complicate matters further, Whitman was a board member at Goldman Sachs when it allegedly engaged in the now-illegal practice called "spinning," in which wealthy clients and CEOs whose companies did business with Goldman received early access to IPO shares, which they flipped quickly for large profits. Whitman said she forfeited the \$1.8 million she made from the deals in a lawsuit she settled with eBay shareholders.

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