

HP's big reboot: A new board for a new era

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HP's five new directors will have little to do with this quarter's likely solid earnings, but they will shape the company for decades to come.

By Ram Charan, contributor



HP CEO Leo Apotheker and Chairman Ray Lane

In order to reboot for 2011, Hewlett Packard announced in January that it was bringing on five new members to its board of directors, replacing four others who wouldn't stand for re-election. The move came just weeks ahead of today's earnings announcement, where CEO Leo Apotheker seems set to report strong revenue gains for his new company. Governance experts might normally say a wholesale move like that is a

sign of trouble. In fact at HP, it's just the opposite. HP ([HPQ](#)) was doing what every board should: overhauling its composition to fit the changing times. Here's why:

As we've seen with recent bankruptcies, notably [Circuit City's](#), a company's demise is now, more than ever a consequence of the actions and inactions taken by its board of directors. A board that lacks knowledge or fails to act can destroy shareholder value just as quickly as a compensation or accounting scandal or internal power struggle. And make no mistake – boards are increasingly being held accountable for company performance, as much as or even more so than the CEO.

Therefore, a board's composition should change to meet whatever challenges the company is facing. Sometimes that change is abrupt. For years, HP embarked on a necessary program of cost cutting and productivity improvements. But that time is over; the company is lean, and what it needs now is a new mission. HP's \$126 billion in revenue last year can be divided into three areas: PCs, which are essentially hardware

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and account for roughly one-third of revenues; printers (along with supplies) and servers, which account for roughly another third; and software and services, the last third. The PC business is essentially commoditized and faces continual margin pressure. The printer and server business is experiencing higher growth, because of growth in the overall market, and HP's integration of software and hardware.

But future growth lies in software and services and cloud computing, and the company needs to shift that way. That's, after all, why Apotheker was brought in -- his executive experience all came at SAP ([SAP](#)), one of the world's largest business software companies. So it only makes sense for HP to have a board that can, on the one hand, constructively question, debate and support the new CEO as he moves in that direction and on the other, appraise his performance objectively.

What happens when the board isn't up to that challenge? Nothing good. When Steve Jobs returned as CEO of Apple ([APPL](#)), he was following three failed CEOs who had brought the company to the brink of bankruptcy. The board that had hired them clearly did not understand what was best for the company. Jobs let them know he would be replacing them nearly wholesale with directors who understood the direction he thought Apple needed to go in, and over time, he did.

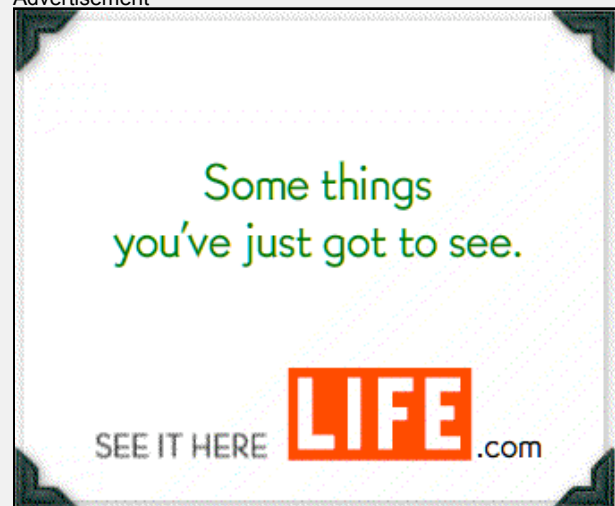
Or consider the Motorola ([MOT](#)) board during Edward Zander's time as CEO. Did the board act quickly enough to position the firm after the success of the RAZR? Having watched their once high flying company get passed by competitors, the board had no

choice but to part ways with Zander and admit all the momentum from their once-great handset business had been lost, because they weren't moving with the times and introducing new products. Post Zander, the board composition did change, and the board has made decisions that are considered positive, including [splitting the company](#) into two, better-positioned new companies.

Maybe you think HP was already well on its way. But the shift was not happening fast enough. The previous board acknowledged as much by replacing Hurd ([among other reasons](#), of course) with the current dynamic duo: Services and software (and sales) expert Leo Apotheker, who climbed the ranks at software giant SAP, and Ray Lane, who was a longtime top executive at Oracle ([ORCL](#)).

But for the dynamic duo to truly execute their vision for HP, they had to be working for a board that already understood the ground rules of fast moving enterprise technologies. With the crop of CEOs and executives that have been recruited to serve

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on the board, they now have that mix. This board is well equipped to make suggestions and evaluate the performance of Apotheker and the company, not just on financials and cost cutting, but on the direction of innovation and growth. That's how HP, and any smart company, avoids the fate of Apple's board, or of letting a CEO who isn't doing a good job stick around too long. So who are these board members, and what do they bring to the table?

Meg Whitman, former CEO of eBay (**EBAY**), and Patricia Russo, former CEO of Alcatel-Lucent (**ALU**), are the two new board members who best represent the enterprise customers that the new HP will have to cater to with its new products. Shumeet Banerji of Booz and Dominique Senequier of AXA Private Equity understand the M&A landscape HP will have to navigate to begin growing smartly again. And Gary Reiner, former CIO for GE (**GE**), is also an advisor to private equity firm General Atlantic, straddling the line between representing the customer and understanding the M&A landscape.

HP has already taken some criticism for the fact that several of the new members had previously done business with Lane and Apotheker in their previous roles, and Senequier sits on the board of a European energy company with Apotheker, and has Apotheker on her board at AXA, but that argument is largely a canard. As Lane said on Bloomberg TV, "It'd be hard for Leo or myself, as long as we've been in this industry, to not have relationships with a lot of people in this industry who can help HP." And in this business, relationships, the group dynamics of the board, are key to success. It's help, not a hindrance, that these

players know each other.

The new center of gravity on HP's board is a focus on the customer, both enterprise and consumer. It may take time for investors to understand what HP has done, but if the group dynamics work, they will have a clear signal of HP's strategy for success, and whether that strategy can succeed.

The path ahead of Apotheker is a long one. Now we know he is surrounded by an experienced group of board members who have the ability to guide him, and Hewlett Packard, very wisely along that path. Many companies plan new strategies; it takes truly bold thinking, and is rare indeed, to plan a new board to help shape and execute them.

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