

Apple, Inc.:

Transparency in Corporate Statements About the CEO

On June 9, 2008, at the Worldwide Developers Conference (WWDC) in San Francisco, numerous media outlets and a packed house waited to hear Apple Chief Executive Steve Jobs's keynote address introducing the new iPhone 3G. While the product's debut drew raves worldwide, the real buzz was created by how gaunt and exhausted Steve Jobs appeared on stage. Rumors immediately began circulating on Internet forums on the apparent source of his condition – perhaps a reemergence of the pancreatic cancer he suffered in 2004 or some new unknown ailment plaguing the widely revered business icon?

Six months after the WWDC, Apple announced that Jobs would not be delivering his customary keynote address at the Macworld Conference and Expo 2009, and that the charismatic rock star of the tech world would be replaced by the comparatively unknown Philip Schiller, Senior Vice President of Worldwide Product Marketing.¹ This made the previous rumbles pale in comparison to the full-fledged rumors that then began to flood media outlets, the Internet and Wall Street regarding Steve Jobs's health and the subsequent impact on Apple and its future.

“More Complex Than I Originally Thought”

Steve Jobs finally provided some definitive insight into the rumors about his medical condition on January 5, 2009, in a statement posted on Apple.com. In it, Jobs acknowledged that he had been losing weight throughout 2008 and that the reason was unknown until he recently made it a priority and underwent further testing. Jobs stated that his doctors “...have found the cause – a hormone imbalance that has been ‘robbing’ me of the proteins that my body needs to be healthy. Sophisticated blood tests have confirmed this diagnosis.” He went on to describe this diagnosis as a “nutritional problem,” that the remedy was “relatively simple and straightforward,” and that he would “continue as Apple's CEO during my recovery.”² Apple's legions of fans and shareholders breathed a sigh of relief knowing that the founder and face of the company would be continuing to steer the helm of this successful company.

Nine days later, an e-mail sent from Steve Jobs to all Apple employees was leaked to the media. It was later posted online as an Apple Media Advisory on January 14, 2009. In this e-mail, Jobs wrote that his “... health-related issues are more complex than I originally thought,” and that he had decided “...to take a medical leave of absence until the end of June.” He went on to explain that “I have asked Tim Cook to be responsible for Apple's day to day operations” although “... I plan to remain involved in major strategic decisions while I am out.”³

This information dropped like a bombshell as the media, shareholders and Wall Street reacted swiftly and unfavorably to the apparent lack of communication credibility from Apple. This latest revelation, while certainly the biggest, is what many say is par the course for a company that is too vague and mysterious in its public disclosures and corporate communication for such a large and prominent publicly-held firm.

“Continue a Pattern”

This latest news brought back memories of 2004 when Steve Jobs suffered with pancreatic cancer. During that period, the media and public felt that Apple likewise acted in an unprofessional manner in its public disclosures about its CEO’s capacity to continue leading the company. A *Wall Street Journal* article from July 23, 2008, summed up the sentiment when it stated that this “...continue[s] a pattern that began in 2004. That year, the company waited nine months to tell shareholders about Mr. Jobs’s pancreatic cancer that ended with surgery that the company said at the time ‘cured’ him. The late disclosure irked some investors...” In fact, Apple’s secretiveness led to some unconventional behavior as, “The dearth of information has led investors to do their own digging over the years. In 2004, one hedge fund hired private investigators to tail Mr. Jobs to a hospital appointment in the hopes of figuring out how sick he was.”

“Inconsistent at Best”

The fall-out from the announcement of Steve Jobs’s six-month leave of absence reverberated throughout the industry and the general public. Since Jobs’s gaunt appearance at the WWDC in June 2008, Wall Street has been keeping a close eye on Apple. Its share price has been shifting with the different emerging announcements. While there is a segment of the public that feels that a person’s medical condition is a matter of privacy and not under the realm of public disclosure, there is a segment that insists that, in this case, it is indeed within the purview of shareholders. Michael Hiltzik of the *Los Angeles Times* emphatically stated that “Apple has allowed its institutional arrogance, its culture of secretiveness, and possibly its solicitude for and fear of Jobs to lead it down a path of rank corporate irresponsibility.”⁴

Apple is facing credibility issues with both its corporate communication and with concerns regarding the company’s success without Steve Jobs. As Dylan Ratigan stated on CNBC’s *Fast Money*, “...the quality of information we’re getting from Apple is inconsistent at best and misleading at worst.”⁵ Combined with post-Jobs jitters, it seems unlikely that such a highly praised, successful company with an extremely loyal customer base would invoke such backlash and concern about its future over any single employee, but clearly Steve Jobs proves to be the exception.

Early Days

Apple Computer was established on April 1, 1976, by Steve Jobs, Steve Wozniak and Ronald Wayne.⁶ Initially, all Apple products were handmade by Wozniak. The first Apple product sold to the public was called Apple I and was essentially a motherboard and not a whole computer. Apple was incorporated as Apple Computer, Inc. on January 3, 1977.⁷ Three months later, Apple introduced Apple II, the first computer with any resemblance to modern day personal computers with graphics, display and disk storage. Apple II was received well as a business-ready platform, and, in 1980, Apple launched the Initial Public Offering (IPO) of its stocks to the public.⁸

During the third quarter of Super Bowl XVIII on January 22, 1984, Apple aired a television commercial titled “1984” to introduce the Macintosh.⁹ The Macintosh was a radical departure from typical computer systems at that time as it featured Graphic User Interface (GUI), which was the template for how computers of the future would be designed. Apple’s partnership with Adobe Systems to introduce laser printers and Adobe Page Maker led Macintosh to become the platform of choice in many industries such as cinema and music.¹⁰

Apple without Jobs

Steve Jobs brought in the president of Pepsi, John Scully, to apply his marketing skills to the personal computer market. Their relationship was soon off to a bumpy road as they became mired in a power struggle. Eventually, the Board of Directors grew impatient and forced Jobs out of Apple. Scully’s regime was highlighted by poor marketing and engineering of its products with such commercial failures as the Quadra, Centris and Performa lines. Apple’s Board of Directors forced Scully out and replaced him with Michael Spindler.

It was more of the same under Spindler; Apple continued to underperform against competitors and Spindler was unsuccessful at many projects such as Newton, as well as takeover discussions with IBM, Sun Microsystems and Philips.¹¹ Spindler lasted only three years at Apple and was replaced by Gil Amelio in 1996. Amelio discussed several acquisitions, one in particular with BeOS. Although that acquisition failed, he did succeed with another; Apple purchased eXT, a company owned by Jobs, and produced computer workstations for higher education.¹² With Amelio at the helm, Apple’s stock hit a 12-year low.¹³ He resigned in July 1997.

Apple Bonanza under Jobs

Jobs became the interim CEO and began restructuring the company’s product line. He quickly initiated several projects including new Microsoft Office for Mac, Apple Stores and a new personal computer called iMac, which was designed by Jonathan Ive, who joined Apple with Jobs in 1997. The new iMac was a huge commercial success and returned Apple to profitability for the first time since 1993.¹⁴

Jobs didn’t stop there; he led Apple into the personal digital devices market. After spending less than one year on development, Apple released the iPod, which revolutionized the digital music industry and changed the way people listened to music. As of September 2008, more than 173 million iPods have been sold worldwide, making it the best-selling digital audio player series in history.¹⁵

In 2007, Apple entered the mobile phone market with the iPhone, and it was an instant success. In about 16 months, Apple sold over 13 million iPhones worldwide. By revenue, Apple has become the third largest mobile phone manufacturer, after Nokia and Samsung.¹⁶ Considering the ultracompetitive nature of the mobile phone market, Apple’s sudden rise in the market is deemed an amazing feat.

With the iPod's clean interface and usability at full display, other Apple product sales gained steam; Macintosh's market share rose from 3.25% in 2004 to 9.93% in January of 2009.¹⁷ After years of struggling, Apple has become one of the most successful consumer electronics and computer companies in just ten years.

Jobs's Contribution to Apple's Success

Nearly every year under CEOs other than Steve Jobs, Apple performed worse than the S&P 500 and NASDAQ Indices. Since Jobs rejoined the company in 1997, Apple has outperformed aforesaid indices every year.

Apple's stock performance only tells half the story, however. Jobs is known to allow freedom for creative processes as he strives to place Apple at the forefront of the information industry by foreseeing and setting trends, at least in terms of innovation and styles.¹⁸ His creative mindset and trend-setting initiatives led Apple to become today's symbol for technological innovation. The public's expectation for Apple's new technological innovation also increased exponentially; Apple's Worldwide Developers Conference 2008, hosted by Steve Jobs, was sold out for the first time ever. Jobs's mainstream popularity grew, too; as well as being ranked as one of the most popular CEOs today,¹⁹ Jobs has many aspiring entrepreneurs and marketers studying his presentation skills.

His impact is also felt outside Apple; iTunes, which Jobs initiated, is widely credited as revolutionizing the music industry. Using Apple's influence in digital media market, Jobs successfully negotiated with contents distributors such as BMI and Sony to eliminate Digital Rights Management technology out of the songs sold on iTunes. To put it shortly, Jobs dominates the rules of online distribution.²⁰

The Steve Jobs Premium

Shareholder interest in Jobs is unusually high because he is considered to be synonymous with Apple. No CEO today embodies and defines his company as completely as Steve Jobs does. "I don't see an Apple, the way we would define the company, without Steve," says Mark Anderson of Strategic News Service, a technology think-tank.²¹

On December 9, 2008, Apple Inc. (AAPL) was trading at \$100.06 per share. After the announcement that Jobs would not be giving the 2009 MacWorld keynote address, the stock began to fall, dropping 15% to a low of \$85.04 on December 24, 2008. After assurances of Jobs's "robust health," Apple stock rebounded to \$94.58 on January 5. However, following the announcement of Jobs's six-month leave of absence, Apple stock plummeted to \$78.20 on January 20, losing almost a fifth of the company's value in less than two weeks time.²² Andy Hargreaves, an analyst with Pacific Crest Securities, says that the Jobs premium is probably around 20% to 25%.²³

A New Jobs?

After his comeback to Apple, Jobs established himself as the face of Apple. Now with Jobs's leave of absence, Apple faces an uncertain future. Can the company maintain its status as the industry leader in design and innovation with Jobs gone? Who at Apple would be able to take the company reins without negatively affecting continued product innovation, financial growth and the stellar profits Apple has been posting quarter after quarter?²⁴

Apple's magic is part design, part marketing, part logistics and part vision. Design is the domain of Jonathan Ive, marketing is brilliantly executed by Philip Schiller and logistics is run by Tim Cook. The vision of Apple is entirely up to Jobs. The question lingering in the back of the public's minds is whether, without Jobs, all of the other pieces and the magic of Apple will continue to come together.²⁵

Tim Cook

The number one candidate for Jobs's position is Tim Cook, who briefly ran Apple during Jobs's surgery in 2004. Cook keeps a very low profile, is single and has earned a reputation as a workaholic. He is the master of Apple's operational minutiae and his deep knowledge of Apple operations has won him the respect of the Board of Directors and the investment community. He is viewed as a brainy and capable leader who has long helped steer Apple's ship behind the scenes.²⁶ However, some are concerned he lacks the charisma needed to run Apple.²⁷ Still, analysts believe that the company will be in good hands under Cook.

Philip Schiller

Senior Vice President of Worldwide Product Marketing Philip Schiller took the stage at Macworld, replacing Jobs as keynote speaker.²⁸ Schiller put on a gamely performance, but obviously fell short of Steve Jobs. Schiller helped restore Apple's reputation as an innovator by delivering breakthrough products such as the iMac, MacBook, Airport, Xserve, Mac OS X, Safari, Apple TV, iPod and iPhone. However, doubts still remain about whether Schiller has the potential to become the glue that holds together the talents underneath him at Apple.

Jonathon Ive

Design guru Jonathan Ive is credited as a major force behind Apple's much celebrated and award-winning product designs.²⁹ With strong support from Apple employees, Ive is considered to be the right man to lead innovation at Apple. However, questions loom as to whether he could take center stage due to his intense shyness and desire for personal privacy. As *Fortune* notes, "Ive is so private that Apple's HR Department doesn't even know his exact birth date."³⁰

Picking Jobs's successor will be a difficult task. He is the ultimate ideational personality, a visionary who can find the links between seemingly unrelated ideas. Jobs created products that Apple customers didn't know they wanted. Apple will need much more than a skilled manager.³¹

Apple's Investor / Media Relations

Due to the unusually high shareholder interest in Jobs, the media strongly criticized Apple for the vague information it reported despite being a publicly traded company. Questions have been raised over whether Apple disclosed information regarding Jobs's deteriorating health as early and as accurately as it should have. On December 6, 2008, Apple did not cite health as an issue when the company announced that Jobs would not make his customary speech at the annual Macworld Expo in San Francisco in 2009. Apple added that Apple Vice-President Phil Schiller would deliver the January 6th address. In a published interview conducted in early 2008, an Apple spokesperson attributed the executive's apparent weight loss to a "common bug," and the company later called Jobs's health a "private matter."³²

Apple's Lawsuit Potential

The Securities and Exchange Commission is looking closely at Apple's disclosures about the state of Steve Jobs's health. The issue, of course, is whether Apple misled investors by first issuing a more positive perspective of his health condition that drove the stock up, followed by statements revealing the more serious condition of his health which drove the stock down.

Jobs is entitled to his privacy, just like anyone else. However, at the same time, he is seen as an invaluable and seemingly irreplaceable asset to Apple. Jobs's health wields a tremendous influence on the price of the company's shares, which are owned by the general public. The news that Jobs's medical condition is "more complex" than previously disclosed has left some investors feeling that they were misled and cheated by Apple's tight-lipped policy on discussing Jobs's health issues, a matter which has undoubtedly played a major role in driving down the company's share price.

Depending on the outcome of the probe, there is the possibility that legal action will be taken against Apple for its failure to keep the market fully informed about Jobs's health.³⁴ However, such lawsuits would be new territory as the law is unclear on what personal medical information a company must disclose about members of its top management.

End of a Golden Age?

Despite Apple's prestigious stature as one of the foremost companies in the new digital age, it faces a challenge it has not, historically, been able to overcome: the loss of Steve Jobs. It is beyond question that the public and Wall Street alike share a profound concern that Apple will suffer the same detrimental fate, with many wondering if this is perhaps the end of a period of dazzling growth. Exacerbating the complexity of Apple's current situation is the level of skepticism and lack of communication credibility the firm has built with the media and public. In recent years, Apple has blazed its own path to the top by refusing to engage in competitor price wars and developing its own unique brand culture. The question that remains is whether its isolationist strategy will continue to reap rewards.

Discussion Questions

1. In your view, can Apple successfully survive without Steve Jobs?
2. How can the company regain communication credibility with the media and public?
3. In your view, is an individual's health, like Steve Jobs's, a matter of personal privacy?
4. How should Apple specifically communicate to different groups like the media, Wall Street, and its consumers?
5. In your view, can Apple regain the "Jobs premium?"
6. Should Apple try to develop a new Jobs-like leader or go in a different direction?
7. If Steve Jobs's health issues persist beyond six months, how should this affect Apple's strategy?

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⁷ "Apple Investor Relations FAQ." [Apple.com](http://phx.corporate-ir.net/phoenix.zhtml?c=107357&p=irol-faq#corpinfo1). <<http://phx.corporate-ir.net/phoenix.zhtml?c=107357&p=irol-faq#corpinfo1>>.

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⁹ This commercial is considered to be a masterpiece and one of the most famous TV commercials of all time.

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¹³ Yahoo! Finance.

¹⁴ "800,000 iMacs Sold in First 139 Days." [Apple.com](http://www.apple.com). 21 Feb. 2009. 5 Jan 1999.

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