The Worst CEOs of 2011

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This has not exactly been a great year to be a CEO. In a normal year, there might be a handful of companies whose CEOs stand out like sore thumbs as potential "worst" candidates. This year, it was like trying to sort through eggs in a hen farm. This list could just as easily have been a few dozen CEOs long, thanks in part to a slew of Chinese fraud scandals, Congressional malfeasance, and what I would term a collective series of poor decisions by a number of CEOs.

What I've done is put together a two-part series that's whittled the veritable forest of worst CEO candidates down to 10. In my opinion, these CEOs, through a combination of poor decision-making or a lack of decision-making, are responsible for crushing shareholder equity and potentially crippling the long-term viability of their respective companies.

10. Tim Armstrong, AOL
The answer is yes -- AOL does still exist, barely. Long removed from the dial-up days of the late 1990s and its botched merger with **Time Warner**, AOL after years still has not found its niche and seems destined to slowly bleed market share to its peers.

Even worse, CEO Tim Armstrong seems hell-bent on running his company's balance sheet like he's at a craps table in Las Vegas. Despite purchasing the Huffington Post for $315 million and TechCrunch for a reported $25 million, as well as spending $40 million a quarter on Patch.com, AOL still faces the same challenges in driving traffic to its websites. Armstrong clearly understands that AOL isn't growing organically and that it'll need to buy growth, but those purchases so far just haven't delivered the goods.

Amplifying the woes at AOL has been its new reliance on ad revenue to drive results. In fact, ad revenue has been so strong that CEO Tim Armstrong recently announced that AOL is angling its business to be ad-driven rather than subscription-driven. Not to be a worry wart, but nearly every Internet company that based its business primarily on ad revenue and went belly up in the last decade. If Armstrong can't turn around AOL's ailing market share in the very near future, he could be looking for a new job. Call it a hunch, but I don't think AOL shareholders would be all that sad to see him go.

9. Stephen Elop, Nokia
Mr. Elop deserves a special place on this list because his actions, or lack thereof, are the primary reason that Nokia, still the leading producer of cell phones, is losing market share to rivals **Apple**, **Samsung**, and **HTC,** faster than ever.

Nokia already found itself in a precarious position heading into 2011. Its Symbian operating system was untested, and its smartphones were unpopular next to the Apple iPhone and other better selling devices. Making matters worse, in February Nokia decided to completely abandon it Symbian operating system in favor of Microsoft's operating system. Great idea, right? Actually, not so great because it would end up taking most of a year to roll out the new platform. With Nokia *way* beyond fashionably late to the smartphone party, it appears that Mr. Elop's decision to change the company's direction so late in the game may have cost it any chance to compete against the likes of Apple or HTC.

Nokia now seems relegated to the lower-margin, lower-cost end of the cell phone market. While there is money to be made at this end of the market, it's no wonder that Nokia's gross margin has been on a steady downward slope and its market share is dwindling. Don't be surprised if shareholders show up with pitchforks in hand at the doorstep of Nokia's headquarters if things haven't drastically improved in the next six months.

8. Trudy Sullivan, Talbots
Don't let yesterday's buyout offer from private equity firm Sycamore Partners fool you; Talbots has been on an accelerated

downward path since Trudy Sullivan took the helm in mid-2007. The company did state on Monday that, after four-plus years of driving Talbots into the ground, Sullivan was planning to retire. But that won't save her from being my eighth worst CEO of 2011.

Talbots has struggled to keep pace with changing consumer trends since the economy peaked in 2007. For a while, I would easily have given the company a free pass, because its competitors also struggled with excess inventory and the unwillingness of their customer base to spend on themselves. The time for excuses, however, has come and gone. Since 2007 Talbots has attempted with regularity to introduce new styles and reduce inventory only to consistently miss its own expectations. You don't see **Chico's** or **Ann Taylor** dipping into their bag of excuses every quarter.

The crème de la crème, however, comes from Trudy Sullivan's pay. As Fool Alyce Lomax has alluded to on many occasions, Sullivan was taking home exorbitant paychecks loaded with stock-based compensation even as her company's stock sank. Despite years of losses, Sullivan took home nearly $6 million in compensation last year, a doubling from the total she took home in 2009. Did I mention that Sullivan will also be receiving a $5 million severance package laced with another two years of equity incentive vesting? Oh those poor shareholders...

7. Antonio Perez, Eastman Kodak
If you're into buying a company where the CEO's strategic direction involves crossing your fingers and praying the courts find in your favor, then perhaps Antonio Perez is the CEO for you. As for the rest of us who consider ourselves to be rational investors, Antonio Perez represents a stubborn figurehead greatly responsible for the demise of a once great company in Eastman Kodak.

Since Perez took the helm in May 2005, Kodak's stock has plummeted by a saddening 96%. Perez has been uninspiring in his never-ending turnaround story (which evidently is taking the long route) and has instead turned to suing every tech company that may have infringed on its patent rights over the years including Apple and **Research In Motion,** in order to stay afloat. Of particular worry to shareholders has been reliance on its resolving credit line to finance its day-to-day operations of late -- a worry that has raised bankruptcy fears despite management's insistence to the contrary.

Unfortunately for shareholders, the figures don't lie. Kodak has been profitable on an annual basis only once since Perez took over, while revenue has been cut nearly in half. In fact, free cash flow fell from a $776 million inflow in 2005 to an *outflow* of $903 million over the past 12 months. Being stubborn has rarely proved a valuable CEO trait, and as I see it, Mr. Perez is exemplifying this with flying colors. Shareholders may want to take their jabs at Kodak while they still have the chance, because I don't anticipate the company surviving much longer.

6. Dan Hesse, Sprint Nextel
Although Dan Hesse hasn't done quite the job on Sprint that Antonio Perez did on Kodak, he still deserves an honorable mention for the more-than-80% stock decline shareholders have suffered under his reign as CEO. As a distant No. 3 carrier behind **AT&T** and **Verizon**, Sprint has struggled under the weight of a large amount of debt and high churn rates for years. Ironically though, that's not the biggest drag on Sprint's stock price.

No, the biggest drag on Sprint's stock has been the decision at the top to continue to support the three headed debt monster **Clearwire**. Like a child that just won't leave home for good, Clearwire continues to need cash infusion to stay afloat and like a parent that doesn't learn from their mistakes Sprint keeps obliging. With another deal announced last week totaling $1.6 billion to keep Clearwire afloat, Sprint's only adding to the huge amounts it has already spent on Clearwire's very unprofitable network.

Since Dan Hesse took the helm in 2007 Sprint not only hasn't turned an annual profit, but it's also stopped paying a dividend, seen gross margin drop from 57% to 45%, and watched its book value erode every year. Now in that same time period Mr. Hesse has taken home $12.3 million in 2009 and $9.1 million in 2010 in executive compensation. If paying for performance was actually a law, I think Mr. Hesse would be receiving a bill on a yearly basis.

5. Leo Apotheker, Hewlett-Packard
There's a reason that Hewlett-Packard jettisoned Leo Apotheker in September in favor of former **eBay** CEO Meg Whitman: The man couldn't make a correct decision if the viability of his company depended on it.

Since Apotheker took over the helm in November 2010, HP's stock lost nearly half of its value. His appointment as head of HP made little sense to many last year, especially considering that his controversial attempt to raise prices at software firm **SAP** seemed to be the primary reason he resigned from that job after a short stint.

While leading HP, Apotheker attempted to take the company in four different directions at once, ripping apart the once-dominant PC producer. In August, Apotheker orchestrated what would turn out to be his death knell, a $10.3 billion purchase of search software firm **Autonomy**. Just about everybody but Apotheker believed he overpaid for the company. In response, he suggested that HP spin off its once-dominant personal computing division. Needless to say, this didn't go over well with investors, and for the second time in as many years, Apotheker stepped down after a short stint as CEO.

But don't feel sorry for Leo -- he'll be taking home a severance package valued at an estimated $25.2 million in cash and stock options. The people I really feel sorry for are the shareholders who put up with this.

4.Jim Balsillie & Mike Lazaridis, Research In Motion
Just because RIM employs a co-CEO structure doesn't mean these two get any less of the blame than a single CEO would.

To say that **Apple** is eating Research In Motion for lunch might be the understatement of the decade. The ease of use of the iPhone has radically transformed the smartphone landscape and left users fleeing the BlackBerry en masse for the much more user-friendly iPhone or even **Google**'s Droid-based platforms. RIM has not only failed to deliver on the unrealistically high expectations set earlier in the year by its CEOs, but it also has apparently completely lost its ability to innovate, which is what made the company great in the first place. And, whether they like it or not, the co-CEOs are the ones who will take the blame.

RIM's PlayBook tablet has been the butt of many jokes on Wall Street. It has failed to live up to expectations, and despite my stubborn optimism about RIM's ability to hang on to its enterprise software business, even I admit that the consumer side of sales is a complete and utter disaster. RIM is losing market share to all of its major competitors and this trend shows little signs of slowing. Recent BlackBerry outages only add to my outrage.

Need another reason not to like this duo? How about the fact that each brought in more than $5 million in compensation in 2011 while also laying off 11% of RIM's workforce earlier this year? With the stock down more than 70% year to date, I'm betting that shareholders' patience with the dual-CEO structure is beginning to wear thin.

3. Reed Hastings, Netflix
For years we've been hearing about the potential flaws built into Netflix's business model: that media costs would rise, that **Amazon.com** would eventually eat it alive, or that CDs would eventually go the way of the dodo bird. Luckily, none of those mattered, because CEO Reed Hastings decided he would do what any good CEO would do following years of rapid growth: cannibalize the hell out of his company.

Reed Hastings may not even have made this list had he made just one faux pas during the year. I probably wouldn't have put him into the top five had it only been two. But the man made three egregious errors that are simply unforgivable of a CEO.

First, he attempted to raise prices by as much as 60% in July without actually adding any value for users. News of these price increases infuriated subscribers and marked the first time in company history that subscribership fell. Second, and perhaps the wackiest idea of the bunch, Hastings aimed to split the company's DVD division from its streaming segment and give birth to the Wall Street mockery of all mockeries, Qwikster. The idea lasted about six weeks before consumer backlash forced Hastings to back away. Finally, with ample cash on hand, Hastings took to the open market to raise even more by offering 2.86 million shares at a discounted price. Not only did this move seem foolish (with a small "f"), but it looked ridiculous following the 900,000 shares Netflix had repurchased so far this year.

I'm sorry, but three strikes and you're out, Mr. Hastings.

2. Greg Divis, KV Pharmaceutical
If you were compelled enough to write a book about various ways to destroy a company's image in the public eye, then I'd point you to Greg Divis, CEO of KV Pharmaceutical.

Earlier this year, if you were a shareholder in KV Pharmaceutical, you may have actually thought Greg Divis looked like a candidate for CEO of the year. The stock rallied more than 1,000% on FDA approval of Makena, an injectable form of the hormone progesterone used to prevent pre-term birth. But shortly after obtaining FDA approval, this titanic stock hit an iceberg of astronomical proportions.

The company priced its newly approved drug at a jaw-dropping $1,500 per treatment. This was unheard of, considering that doctors had previously used compounding pharmacies prior to Makena to achieve the same result for $20 or less. If that wasn't enough of a slap in the face, KV threatened to sic its lawyers on any doctors who continued to use the cheaper versions for treatment, claiming that Makena's orphan drug status made it the exclusive therapy. To make a long story short, KV ticked off everyone, from expecting mothers to advocacy organizations to even Congress. The debacle resulted in the FDA ruling against KV's Makena exclusivity and the company dropping the price of Makena dramatically.

So finally, after putting millions into developing Makena, it now appears KV may not be able to sell it at a high enough price to make a positive return on investment. To top that off, most of the world now sees KV as a heartless company. Good job, Mr. Divis!

And finally, numero uno...

1. Jon Corzine, MF Global (OTC: MFGLQ.PK)
Seriously, how could anyone else other than Jon Corzine fill the role of the worst CEO of 2011? And it isn't as if he was the worst CEO by a small margin -- he practically deserves his very own category.

In what is still being investigated as the disaster of 2011, MF Global and Jon Corzine made large bets on European debt -- a big bet similar to the rogue-trader incident that Corzine referred to in early 2010 as a reason to change the firm's culture. Lehman Brothers, the now-defunct investment bank that went belly-up during the credit crisis because it was levered to the brim at 30-to-1, looks like child's play next to the magnitude of leverage Jon Corzine had at MF Global. Some estimates put MF Global's leverage ratio at 80-to-1!

But bankrupting MF Global wasn't enough. Under Corzine's watch, it now appears that the company took it one step further by using customer funds in a last-ditch effort to prop up its highly levered business. I firmly believe that everyone is innocent until proven guilty in a court of law, but with the latest estimates of $1.2 billion in customer funds still unaccounted for, I'm st arting to think it might be wise for Mr. Corzine to begin looking for a tailor-made orange jumpsuit.

Foolish roundup
Well, there you have it -- my picks for the 10 worst CEOs of 2011. Which CEO sticks out to you as the worst? Let us know in the comments section below.

Also, I invite you to download your copy of our free report, "5 Stocks The Motley Fool Owns -- And You Should Too," which highlights five stocks handpicked by our top analysts, who have management teams you can trust.