

Pressure's on for CEOs to deliver--now

By Susan Chandler
Tribune staff reporter

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The best thing about being a CEO these days may be the exit package.

More corporate chieftains are getting the boot after relatively short tenures even as the size of their severance checks balloons, management experts say. Robert Nardelli, the autocratic chief executive of Home Depot Inc., became the latest example Wednesday as he was shown the door at the world's largest home improvement retail chain.

Nardelli, once a rising star at General Electric Co., had much to do with his downfall, experts said. But his departure is part of a larger trend: Boards are running short on patience.

"The average tenure of a CEO is 48 months. That's not very long," said Wally Scott, professor of management at Northwestern University's Kellogg School of Management. "Boards are intervening much more strongly to make changes when they think change is required. They have itchy trigger fingers."

CEOs have the same short-term mind frame, adds Peter Crist, a headhunter in Hinsdale who specializes in filling the top three positions at large publicly traded companies.

"Whether they know it or acknowledge it, everybody in my world lives on a five-year cycle. That manifests itself in how long people stay in the chairs but also how the contracts are written. Check the contract of a coach, a CEO or even a head of a not-for-profit. They tend to run in five-year cycles."

Nardelli managed to anger his critics even on his way out. His exit package totaled \$210 million, an extraordinarily large number even by today's high corporate compensation standards and a figure that is roughly seven times what Home Depot set aside last year to reward stores and store-level employees for good customer service.

"It's an egregious amount any way you slice it. It's not a number you will see in today's climate," said Crist.

He noted that Home Depot may have been legally obligated to pay much of that amount as Nardelli signed when he joined the company in 2000 at the top of a long bull market.

That's little comfort to Richard Ferlauto, director of pension and benefits for the American Federation of State, County and Municipal Employees, the public-employees union that owns 23,000 Home Depot shares. The union has been a frequent critic of Nardelli's compensation and other issues.

The size of Nardelli's package, Ferlauto says, makes it more like a "platinum helicopter" than a golden parachute.



Ferlauto vows that the union's fight with Home Depot is not over. "It's a continuing story. We're going after the board."

That's exactly what companies' board members are hoping to avoid by dumping underperforming CEOs faster, corporate governance experts say.

"The last thing you want is to be sued, successfully or not," said Scott at Northwestern. "That's not the reason you join boards."

The stress on boards is coming from the world of big money--managers of pension funds, hedge funds and private-equity funds--all of whom are under pressure themselves to produce fat returns for their clients.

"Shareholders definitely have a shorter fuse these days. It's just the world we live in," said Anthony Sabino, a law professor at St. John's University and a New York attorney who specializes in corporate litigation. "It's been a long time since the investing public had any patience with year-to-year results. Now we focus on quarterly results, and sometimes it's daily results."

For examples of CEOs who have been on a short leash, one need look no further than Kraft Foods Inc. in suburban Northfield. Kraft promoted Betsy Holden to co-CEO in 2001 and then moved her aside in 2003. Roger Deromedi, who became Kraft's sole CEO in 2003, was ousted himself three years later.

In December J.C. Penney Co. fired its chief operating officer, Catherine West, after just five months, reportedly because she had not learned the retail business quickly enough. Previously she had worked in the credit card industry.

This week, Mike Zafirovski, the new chief of Nortel Networks Corp., expressed concern about his job security in *The Wall Street Journal* after only 13 months on the job.

When Nardelli arrived at Home Depot's Atlanta headquarters six years ago he seemed a natural to lead the company into the next era. Under founders Arthur Blank and Bernard Marcus the chain had prided itself on hiring former plumbers and electricians and paying them good wages to help customers navigate the world of home improvement. It kept prices low with no-frills warehouse-type stores and encouraged local managers to tailor their product selections to the taste of local markets.

Boosted by growth in home ownership Home Depot had expanded to 1,000 stores in 20 years, displacing Sears, Roebuck and Co. in the Dow Jones industrial average and becoming the country's second largest retailer, behind Wal-Mart Stores Inc.

Top-down management

But after Nardelli arrived he quickly imposed a top-down style. In one of many efforts to cut costs Nardelli replaced many full-time workers with part-timers. He slashed the bonus pool for front-line employees even as his own pay package hit \$28.5 million in 2004. Customer-service ratings last year hit the bottom of the barrel among major U.S. retailers in the University of Michigan's annual survey.

At the same time, rival Lowe's Cos. was gaining market share by opening bright, welcoming stores that contrasted sharply with Home Depot's concrete floors and towering shelves.

Nardelli also worried retail analysts about his commitment to the core big-box business by going on an acquisition binge and expanding into endeavors that included contractor supply outlets and convenience stores.

In the world of corporate governance, Nardelli's approach was unusually high-handed.

Last year, for example, Nardelli moved Home Depot's annual meeting out of town, told board members not to make an appearance and severely limited shareholders' time to ask questions.

In May, Nardelli stopped issuing monthly sales results, a key measure Wall Street analysts use to assess the health of retail chains.

Declining stock price

Despite the fact that Home Depot had posted yearly sales increases averaging 12 percent and profits had doubled, the company's stock went nowhere. Home Depot's stock, which traded around \$60 per share the year he arrived, closed Wednesday at \$41.07 a share, up 91 cents on the news of Nardelli's departure.

Home Depot's stock price translates into a price-earnings ratio of slightly more than 14. Wal-Mart Stores Inc., which has been having its own troubles these days, trades at a P-E multiple of more than 18. Sears Holdings Corp., which has been losing market share rapidly, trades at a P-E of nearly 20.

Nardelli reversed course slightly last year, saying he would refocus Home Depot on providing good customer service. But it was too late.

He might take comfort in the fact that he is not the only high-profile person in Atlanta who lost his job this week. Jim Mora, coach of the Atlanta Falcons, was fired after his team failed to make the playoffs. The Falcons happen to be owned by Home Depot co-founder Arthur Blank.

"Sports or business, it's all the same," attorney Sabino said. "The team doesn't win, fire the coach."

schandler@tribune.com.

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