Ousted Home Depot CEO hauls off $210 million severance package

Naomi Spencer
8 January 2007

Shareholder outrage over exorbitant compensation and persistently low stock performance forced Home Depot head Robert Nardelli to abruptly resign last Wednesday. The chief executive and chairman is taking with him at least $210 million in severance, including a cash payment of $20 million and stock options currently worth at least $77 million.

Notably, the total amount of Nardelli's "golden parachute" is worth seven times the $30 million earmarked for those among the retail chain's 355,000 employees who demonstrated good customer service. Home Depot is the second-largest US retailer behind Wal-Mart.

The Home Depot board of directors removed Nardelli January 3 following a review of complaints over his extravagant pay and falling company share prices. During Nardelli's six-year stint as CEO, worth of the company's stock fell by 9 percent; over the same period, Home Depot rival Lowe's recorded stock appreciation of 188 percent.

As institutional shareholders saw poor returns, Nardelli and other top Home Depot executives awarded themselves millions in nonperformance-based bonuses and other perks. Between 2000 and 2005, Nardelli has been awarded $245 million, $123.7 million excluding some stock options. In 2005 alone, Nardelli received more than $37 million in pay. His total package for 2006 has yet to be disclosed.

Some politicians have been prompted by public disgust to decry the scale of Nardelli's exit package. Congressman Barney Frank, (D-Mass.), the new chairman of the House Financial Services Committee, suggested that legislation should be crafted to insulate shareholders from the effects of executive excesses by giving them some control over compensation.

The congressman called the severance agreement a "confirmation of the need to deal with a pattern of CEO pay that appears to be out of control." Coming from establishment politicians, such criticism must be seen as little more than hot air from representatives of the ruling elite who have overseen incredible growth of inequality during their careers, and whose real methods and agendas serve to buttress the profit system. Expressing the growing concern within layers of this elite, Frank told the Associated Press that the payout was "a sign of being totally out of touch . . . They don't understand the extent to which they make the American public angry."

The positions and pay in corporate careers are almost wholly determined by connections. Nardelli came to Home Depot from General Electric after he was passed over for the CEO position there. Two members of Home Depot's six-member compensation advisory board are also former executives of GE, and all have close ties to one another through various other company boards. As chairman, Nardelli purged virtually all long-time managers, and had 98 percent of Home Depot's top 170 executives replaced with new employees from outside the company.

After his arrival at the company, Nardelli also oversaw an in-store restructuring focused on downsizing the workforce. Thousands of full-time positions were eliminated after electronic self-checkout aisles were installed and an automated inventory management system was implemented. The replacement of full-time employees with part-time workers largely accounted for an increase in the profit margin from 30 percent in 2000 to 33.8 percent five years later.

Nardelli was reviled among the rank-and-file workers. As the January 15 issue of *BusinessWeek* notes, "As the news of his resignation on January 3 shot through Home Depot's white-walled Atlanta headquarters and reached stores, some employees text-messaged each other with happy faces and exclamation points." One Atlanta assistant manager told the magazine that Nardelli's ouster was "received well" by workers, who regarded the CEO as "autocratic and stubborn." Workers were "openly ecstatic" at the news, "high-fiving" in the stores.

Nardelli's reputation among institutional shareholders was perhaps worse. In a high-profile incident in May 2006, shareholders attempted to confront the board of directors about the absurd pay at the company's annual shareholder meeting. However, the shareholders were stonewalled when no directors showed up.

Instead, Nardelli, the sole company representative in attendance, refused to answer questions or consider complaints. Questions were limited to one per person, and were given a time limit of one minute apiece. The microphone was cut for those who went over the time limit—represented by a giant clock facing the audience. Several shareholders asked Nardelli to address the discrepancy between enormous pay and declining stock values. Nardelli derisively rejected each proposal on behalf of the board, and declared the meeting adjourned after only 30 minutes.

The utter arrogance on display enflamed contempt for Nardelli among the company's shareholders and lower level employees, while the absence of the board, itself defined by cronyism and greed, epitomized the disregard for workers and long-term stability that is rampant in executive circles. Nardelli's severance pay package is a particularly stark manifestation of the ruling elite's parasitism.

Nardelli is among an elite but growing number of executives who rake in hundreds of millions in "compensation" upon resignation. The amount frequently has little connection to the health of the company or stewardship provided.

In fact, the opposite is more often the case; the more enthusiastic the gouging and gutting, the more massive the severance. Pfizer head Henry McKinnell, for example, left the company in 2006 with a severance package worth $213 million after the pharmaceutical company lost an estimated $137 billion in stock value during his tenure. Morgan-Stanley executive Philip Purcell walked away with over $95 million after he was forced out in 2005.

Another financial head with a reputation as a Wall Street megalomaniac, Sovereign Bank CEO Jay Sidhu, was recently forced to resign, taking with him a package worth $44 million. Sidhu voiced the attitude of CEOs toward critical shareholders when he told Institutional Investor magazine in 2005, "they should sell the goddamned stock and never ask another question!" He elaborated, "We will always do what is right. That's what we believe in. That's what we live. And those who don't believe in that, they should go invest in something else and get the hell out of our stock!"

Incoming Home Depot CEO Frank Blake, another former GE executive and former US deputy energy secretary, was paid just under $6 million in 2005, $2 million more than the year before. While his compensation package will be significantly less than Nardelli's, business is likely to continue as usual at Home Depot. Blake joined the company in 2002 as executive vice president to implement Nardelli's employee downsizing strategy and expansion of operations into Mexico.