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The Crystal Report on Executive Compensation



Ed Whitacre Is Wrong for GM

by Graef Crystal

June 15, 2009

If you ever needed proof that the government should stay out of running businesses, the Obama Administration's ludicrous appointment of Edward Whitacre to be the non-executive chairman of General Motors Corp. ought to be all you need.

Mr. Whitacre brings two virtues to the table, as I see it. And GM doesn't need either of them:

- During his long career as head of what, after frequent renaming, became AT&T Inc., he has been a middling performer. An index fund would have given you a better return than Mr. Whitacre produced for his shareholders over his tenure.
- He just loves pay, so much so that, in my opinion, he became one of the most excessively-paid CEOs in the land – and that for running a phone company.

Whitacre's Performance

Mr. Whitacre became CEO of SBC Communications, the predecessor company to AT&T, sometime in Jan. 1990.

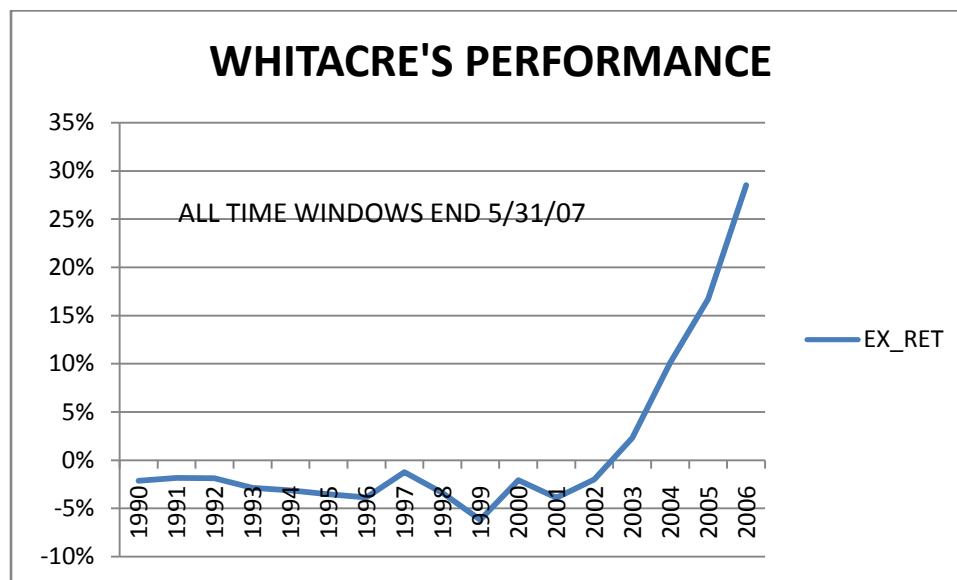
I looked at his performance in 17 different and narrowing time windows, in each case calculating the company's "excess return". Here, I subtracted the return on the Dow Jones Industrial Average from AT&T's return. Normally, I use the Standard & Poor's 500 Index for these calculations, but AT&T's board compensation committee uses the Dow as one of its key performance comparators.

For the widest time window, I measured AT&T's performance between Dec. 31, 1989 and May 31, 2007, Mr. Whitacre's last day as CEO. But since I didn't know when in Jan. 1990 he became

CEO, I constructed a second time window covering the period, Jan. 31, 1990 through May 31, 2007. Then I averaged the two excess returns.

I followed the same procedure with 16 more time windows, but in each case, the start date was incremented by one year, with the end date always being May 31, 2007.

The results are displayed on the following chart:



For all 17 time windows, the median excess return was negative 2.1 percentage points, meaning that an investor would have been better off buying the Dow than buying AT&T stock.

But in fairness to Mr. Whitacre, you can also observe a quite strong finish to his career, especially looking at the narrowest three time windows where the excess returns were, respectively, 10 percentage points, 17 percentage points and 29 percentage points.

On the other hand, a closer analysis shows that Mr. Whitacre's superior performance at the end of his tenure was almost wholly due to his performance in his last year as CEO, the year stretching from May 31, 2006 to May 31, 2007. In that single year, AT&T's total return was 65 percent, a figure that beat the Dow by 40 percentage points.

By comparison, his performance in the immediately prior year (May 31, 2005 to May 31, 2006) beat the Dow by a lesser 8 percentage points. And his performance in the year before that yielded an excess return of negative 1.1 percent.

Mr. Whitacre may have been a slow learner. But, as the chart suggests, learn he eventually did – or at least he did on his last year or two on the job.

Whitacre's Pay

Although Mr. Whitacre became CEO in Jan. 1990, the U.S. Securities and Exchange Commission's Edgar website contains proxy statement data only from 1994 onwards, a period of 13.4 years.

Over those 13.4 years, I calculated that Mr. Whitacre hauled away, or is in a position to haul away, \$507 million in compensation, which averages out to \$38 million a year.

Some of the key goodies here include:

- Aggregate base salaries of \$22 million.
- Aggregate bonuses of \$60 million.
- Aggregate free share awards of \$16 million,
- Aggregate option gains of \$71 million.
- Aggregate performance share payouts of \$204 million.
- Aggregate miscellaneous compensation of \$47 million.
- And a lump-sum pension worth \$87 million.

At every turn, AT&T's open-handed comp committee seemingly gave Mr. Whitacre just about every goody known to man.

Of particular interest is the fact that when he left on May 31, 2007, he still had millions of dollars of pay coming. And I don't mean his \$87 million lump-sum pension either.

AT&T's performance share plan consists of three-year performance cycles, with a new cycle starting each year. The plan also allows a retiree to collect rewards for cycles that were uncompleted as of his retirement as though he had worked for the entire cycle. So based on the stock prices at the end of 2007, Mr. Whitacre stands to earn future stock awards of a likely \$89 million (though the figure could go higher yet if AT&T's stock rises or if it performs especially well under its new CEO. It could also, of course, go lower if the company's stock price drops or future performance is poor.)

In 1968, I ghosted a book for the late Don Mitchell, who at the time was the chairman of the American Management Association (back then, a big deal) and who before that had been CEO of Sylvania Electric and president of General Telephone. Reflecting the beliefs of the day, Mr. Mitchell told me that "a good manager can run anything, He can run a steel company. He can run an airline, etc." His belief lay at the heart of the then booming conglomerate movement, in which

CEOs like Harold Geneen of ITT assembled hundreds of disparate businesses under a single chief.

Subsequent history has shown this belief to be essentially threadbare. Most of the conglomerates are gone, and the key one that remains, General Electric, is not doing too well these days.

What ended up replacing the belief that “A good manager can manage anything” is an even older belief that “You gotta know the territory.” (See the musical comedy, “The Music Man”)

I found myself in a time warp when I read Mr. Whitacre resurrecting the belief about a good manager. He told Bloomberg News: “I don’t know anything about cars. A business is a business, and I think I can learn about cars. I’m not that old, and I think the business principles are the same.”

Granted he can “learn about cars”, but based on his previous record, it make take him many years to cut through the fog and get to the higher ground. The country doesn’t have that much time.

Media reports suggest that President Obama’s car czar, Steven Rattner, was the force behind Mr. Whitacre’s appointment.

Before he became an investment banker, Mr. Rattner was a reporter for *The New York Times*.

It’s a pity that he didn’t draw on his reportorial skills to dig a little deeper into Mr. Whitacre’s extremely slow learning curve and his pay excess.

2009 marks Graef Crystal’s 50th anniversary in the executive compensation field. He has been a director of compensation for General Dynamics and Pfizer, worked as a consultant for Booz, Allen & Hamilton, served as worldwide practice director at Towers Perrin for 18 years, was a professor at the University of California at Berkeley’s Haas School of Business for 10 years and a syndicated columnist for Bloomberg News for almost nine years. He has written six books and more than 1,600 articles on executive pay.