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Maybe Obama Should Have Picked Welch, Not Immelt

by Graef Crystal

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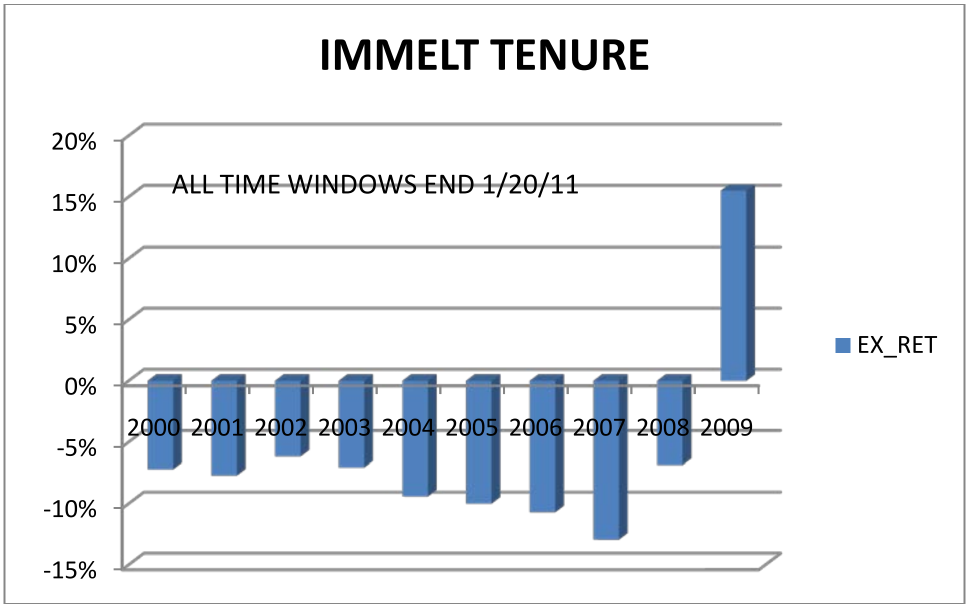
Last week, President Obama named Jeffrey Immelt to head his panel of outside business and economic advisors. Immelt will continue to run General Electric, the company he has headed since the end of 2000.

Compared to the other companies that comprise the Standard & Poors 500 Index, GE has not performed well in recent years.

I have looked at GE's total return in 10 time windows, the first beginning Dec. 31, 2000, when Immelt became CEO. Then the second time window's scope was narrowed by one year, with a start date of Dec. 31, 2001. This year-by-year narrowing occurred until the tenth time window was reached. Its beginning date was Dec. 31, 2009. All 10 time windows ended on Jan, 21, 2011, when the research for this article was completed.

From the total return in each time window, I deducted the total return on the S&P 500 Index for the same period to produce a so-called "Excess Return" figure.

Here, in graphic form, is how GE turned out under Immelt's leadership.

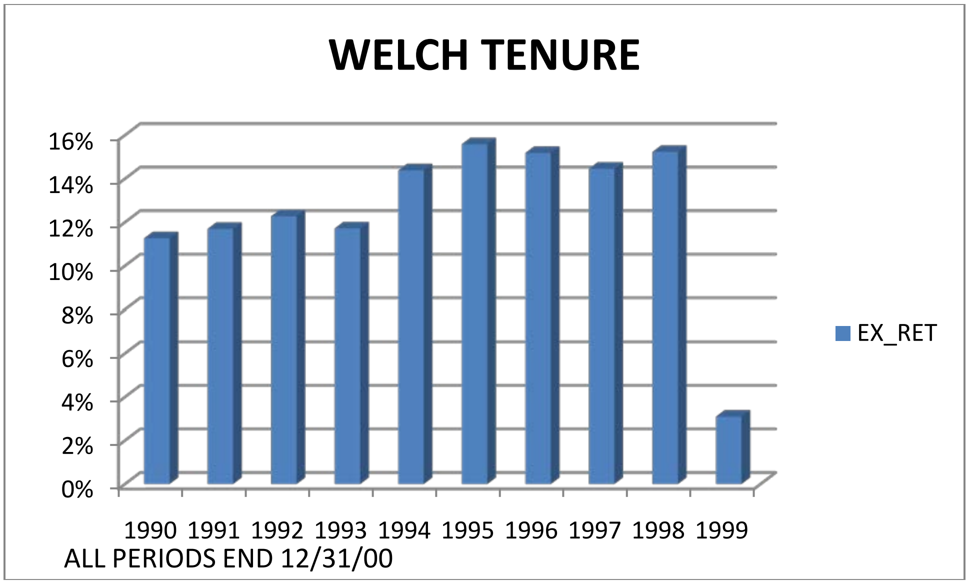


The median return in all 10 time windows was negative 7.5 percent per year. And the excess return in all but one of the 10 time windows was negative.

Happily for GE's shareholders, that one positive excess return figure was posted for the most current time window, the one that began on Dec. 31, 2009 and ended on this Jan. 21. The excess return here was a quite healthy 15.5 percent.

But Jack Welch, Immelt's predecessor at the helm of GE, posted a far superior record. In his case, I looked at 10 time windows, each of which ended Dec. 31, 2000, when Immelt took over. The first window began Dec. 31, 1990, the second began Dec. 31, 1991 and so on.

Here how Jack Welch's last 10 years on the job looked.



Welch beat the S&P 500 in all 10 time windows, and his median return for the 10 windows was a positive 13.3 percent.

It is hard not to conclude that Jack Welch was a far better performer than Jeff Immelt, although his performance in the last time window of his tenure was not what you'd call remarkable.

So why didn't President Obama turn to him to be his advisor?

Of course, Jack is no spring chicken, to use my grandmother's phrase, He is currently 75 years old.

But the person he is replacing, Paul Volcker is currently 83 years old.

Besides all that, it seems to me that there is a potential "conflict of interest" between being a key advisor to President Obama and at the same time running one of the world's largest companies.

In any event, I wish Jeff Immelt – and us – the best of luck.

2011 marks Graef Crystal's 52nd 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.