Lights Out

Pride, Delusion and the fall of GE

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GE was incorporated in Schenectady in 18902, assembled by bankers out of non performing attempts of inventors to translate their brightest ideas into business

The board knew that Immelt's strategy was stuck in the mid and his optimistic pronouncements weren't delivering.

From his first day in the job, Flannery had no option but to deal with the truth, no matter how harsh and no matter what the consequences.

Under Immelt there was a buzzy, vague optimistic spin that didn't hold up and eroded GEs equity with wall street and employees alike.

Flannery had uttered a new mantra “ NO MORE SUCCESS THEATER” which was GEs problem for many years.

GE was a siloed organization, irrespective of what it told the outside world.

The pressure to perform inside GE is omnipresent, and missed goals can be fatal, a tradition true at all levels.

GE Power had sold service guarantees to its customers that extended for decades. By tweaking its estimate of the future cost of fulfilling those contracts, it could boost its profits as needed.

At GE, the corporate logo is known as the monogram, old timers call it ‘the meatball’

GE electrified America, powered its biggest machines and it was in financial credit terms as good as the US Government itself.

At its peak in 2001, GE was worth $ 600 billion, and had business lines that touched life in the developed world.

Kurt Vonnegut worked in internal communications at GE and his brother was a GE scientist.

GE hired celebrity pitchmen to get into pop culture and hired Ronald Reagan, a struggling actor to pitch GE appliances.

When Welch became CEO , he wanted to cut bureaucracy to cut costs and improve speed. Welch did his best to kill anything that slowed GE down.

Conglomerates inherently trade at a discount to the sum of their individual parts but their diverse businesses weather the storm better and have better access to capital that protects from volatility.

Welch did 100 acquisitions in his 20 years, nearly four deals a month and spent $ 130 million.

Welch started the rank and yank system where the bottom ten per cent of employees were asked to leave. This crated tension in the organization.

Welch became a brand of his own on wall street and main street. He was known for his straight talk and confrontation and encouraged others to bring the same to the table.

Immelt worked in P and G where he goofed off with Steve Ballmer and then he went to HBS. He graduated in 1982, turned down an offer with Morgan Stanley.

Welch would argue that he pushed his people to produce results but not by committing fraud. Welch created a pressure cooker where people took the wrong steps.

Rather than clean up the mess of his predecessor and set a new path, Immelt continued to press ahead with old projections and promptly missed his numbers.

Immelt knew that plastics numbers were fudged for decades.

Despite his ruthlessness, welch was a good coach, he knew when to keep quiet and let the lesson be taught on the field.

Immelt like many executives in the 1990 s was falling in love with the internet and was trying to figure out how to get some of that energy into his own business and for himself.

The new companies from the west coast like amazon and e bay lacked the long term predictability and stability in the 2000s.

GE s annual report mentioned the word internet once in 1998 and 56 times in 1999.

The doubters felt Immelt was untested and probably unready for the job. He had spent most of his GE career in sales and marketing in plastics.

Immelt never liked to lose a deal and invariably ended up paying more either on price or by adding services etc to the deal.

Immelt quickly adjusted to the role, reading up a lot on business and sports. He relied on humor and straight talk to win the rank and file.

GE was a complex organization, multiple businesses, siloed and entangled in management hierarchies. Workers generally reported to more than one boss.

The corporate accounting world looked very different before Enron. Enron seemed unbreakable, with direct connections to the White House and had widespread approval for their innovative strategies.

GE wasn’t Enron, but it used some tricks that were less than transparent. Like Enron, GE was a mystery top investors and analysts. The company could explain some of its operations but a lot of it was a black box, and one producing consistent results.

Immelt once said “Every job looks easy till you are not the one doing it”

Immelt did too many deals. The Economist wrote “ Its not clear if Immelt is digging himself into a hole or getting out of it”

Immelt realized the wall street concerns on him and coined a new expression : Organic Growth.

Immelt turned his attention to marketing since that's where he came from - the marketing side. The new line was "GE-Imagination at work"

Beth Comstock was recruited as head of communications. They had ‘imagination breakthroughs’ and story telling became strategy.

In 2005, the global GDP grew by 3.8 pc and here GE was saying it will grow twice or three times that number. It sounded not optimistic but impossible to investors.

SEC investigated GE and came to the conclusion that there were questionable practices. GE had stretched its accounting practices.

GE capital was a beast that grew under Welch. GE Capital was able to attract some of the best people in the world, they cultivated the wizards of finance.

When Flannery became CEO, he travelled the world and could see the huge bureaucracy and how slow GE had become.

Trust and confidence are everything in finance. People put money in a bank because they are confident that they will get it back.

GE capital produced half of GE profits and that was a worry to wall street.
For a company that was steady, it was sending a lot of mixed signals like buying back shares and selling them at a lower price to raise money.

On Immelt's first day in 2001,the GE share price was around $ 38, in January 2009 it came down to $ 12.

The SEC looked at GE accounting and fined them lightly $ 50 million for the transgressions. GE promised not to misbehave in the future.

The Fed decided to depute a team to work in GE accounting to oversee GE practices. GE believed that this move was costing GE about $ 400 million a year.

In 2013 GE came with new jargon – simplification. This is what American companies do, more slogans.

The premise of 3D printing or additive manufacturing in GE s jargon, looked like a mirage in a future world.

Immelt saw the future of industrial companies , it was in software and hard core computing. His vision was something other industrial units would follow soon.

GE in acquisition mode twirled like a tornado, gathering up smaller companies to blend into the overall mass-sometimes at prices that Immelt’s critics didn’t like.

Immelt looked at sustainability and coined the expression ‘Eco imagination’

As Immelt neared the end of his career, he declared what he would see as a defining declaration – he declared that GE would produce at $ 2 of profit per share in 2018, it was an unusually long term projection.

By March 2016, marketing was in full swing, the future of GE was digital, GE was offering solutions as opposed to products.

When GE wanted to buy Alstom, they encountered the governance problems that Alstom had indulged in – corrupt practices. Alstom had paid $ 75 million in bribes over a decade to win business.

GE had a new visitor Nelson Peltz and Trian. After meddling in Heinz, Mondelez, he came here with a unique offer – Trian would invest into GE without a board seat.

Peltz made his name with the turnaround of Snapple.

In early 2016, Immelt wrote to shareholders " in a complicated world, we are simpler and more competitive. In an uncertain world, we are skilled in managing through tough cycles."

Immelt pushed for market share at any cost. This is something many companies do and fail.

By the end of 2016, GE power was struggling, and management was worried. They had a dim reality of the future.

When CNBC started The Apprentice, they got in Donald Trump to host it.

GE asked their external counsel, Sandy Morhouse of Dewey Ballantine if working with Donald Trump was a reputational risk.

Flannery’s early days as CEO were like that of Immelt – lots of travel, lots of meetings, he wasn’t charismatic as Immelt and brought a CFO like approach to the job.

Immelt had a second jet follow him wherever he went, always empty just in case his jet developed a problem. He told the board that he didn't know about this and this was a admin department decision. He then said that he had asked for it to be stopped in 2014, however it went on till the end.

On his last investor call, ten days before leaving as CEO, Immelt pushed back with his usual optimism, we will outperform on costs etc. etc. Others didn’t agree with him.

CEOs don’t do the jobs for the perks. The environment of supplication that surrounds the head of a company needs the humility of a CEO to take it out. However organizations go and do things which are done in the name of ‘he likes it this way’

Flannery sold the corporate jets, stopped the free cars given to the top 800 managers, and started a slew of cost cutting programs.

If Immelt was known for vaulting optimism, Flannery came to be known for indecision and endless analysis.

The complexity and mess of GD needed commitment to decisions, with Flannery everything would be up in the air and decisions would be revisited every few weeks. This was a disaster for a company like GE.

The GE board of directors typically met 12 times a year under Immelt. Under Flannery they met fifty times !!

Buybacks are controversial, some see it as a lack of ideas from management to invest in, others see it as a second dividend. Warren Buffett and Charlie munger say a company should buy back when it has enough cash to run its operations and two when the share discount is material when calculated in a conservative way.

Under Immelt, buybacks were regular. Immelt spent $108 billion after 2004. at the end of 2018, GEs market cap; was $ 67 billion, in his last 18 months Immelt spent $ 26 billion buying back shares.

GE spent $153 million in June and $ 18 million in July in the last two months before Immelt retired.

Flannery’s candid description of the bleak state of the company and the need to restructure suggested that the company was in a deeper problem than people earlier thought.

The continued uncertainty around the share price was a crushing blow to the morale of the employees.

Under Flannery…

- No more pretending
- No more deals at any cost
- No more pretending around vague concepts
- No more marketing story
- No more mythology

- This was the new GE credo

Flannery was putting out fires and discovering new fires. This created a tension between Flannery and the board.

In naming Larry Culp to the GE board, the board told Flannery that Culp could be a future CEO and his rival. Flannery was sure of a long stint and brushed these comments aside.

In June Dow Jones Industrial average dropped GE stock from its list, this was a big blow.

In a few weeks Flannery was out and Culp had been named as CEO. Flannery was reeling he told the board that GE needed time for a turnaround. The board felt that Flannery wasn't moving fast enough and wasn't executing.

All the pundits were trying to understand how a company valued at $ 600 billion was only a fraction of that now.

Culp wants to create a ‘market for truth’ in the company. He has the challenge of rebuilding GE as an outsider.

Immelt has again ignited the discussion of CEO cum chairman role being held by one person.
In one year after Immelt left, GE lost $ 140 billion in market value.

Under Immelt, the company believed that the will to hit a target could supersede the math's.

Reality isn’t a tackle sled. Story isn’t a strategy. Sometimes imagination alone doesn’t work