How GE Has Become a Shadow of Its Formerly Great Self

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Wall Street Journal reporters Thomas Gryta and Ted Mann's *Lights Out: Pride, Delusion, and the Fall of General Electric* is the cautionary tale of GE CEO Jack Welch's handpicked successor Jeff Immelt, a derelict board of directors, and the destruction of one of America's great and most iconic companies.

Many considered GE the world's best-managed company and Jack Welch the 20th century's greatest CEO. With a market capitalization over $600 billion in 2000, it was the world's most valuable company and the gold standard of credibility.

Critics argued GE managed earnings, that most of its growth came from GE Capital and should therefore have commanded a lower valuation multiple more like a bank, and that conglomerates don't create value.

For decades GE made judgment calls whether to recognize revenue and expenses in the current or next reporting period, to smooth earnings growth. But Welch's sustained earnings growth over two decades was real. And, even with a hybrid industrial/financial-services-valuation multiple, GE would have been one of the world's most valuable companies.

There's a good case that putting businesses with no synergies between them under one roof doesn't make sense. GE made light bulbs, appliances, aircraft engines, gas turbines, and MRI scanners, provided credit cards, insurance, and commercial loans, and owned a tv station. Pre-Immelt however, GE could argue its ballyhooed management was the secret sauce enabling the behemoth conglomerate to perform.

Immelt took the reins in 2001, as CEO and Chairman. Being Chairman mattered as it let him run the board charged with managing him as CEO.

The former Dartmouth offensive tackle was a salesman and aggressively-genial autocrat, with boundless optimism and confidence in his judgment. He didn't brook dissent from his Panglossian views, or bad news.

Any CEO can have a rough patch. Immelt had 16 bad years. His signature initiatives failed.

No firm spent more lobbying Washington than Immelt's GE. He gushed about a golden age of American industrial planning with government as regulator, "an industrial policy champion, a financier, and a key partner." He enthused GE was "a natural partner" with federal agencies. GE long benefited from the Export-Import Bank financing its sales and hoped to ride a torrent of Green-energy subsidies.

The authors describe a GE "success theater" where Immelt's deals were done regardless of price, his initiative fancies lavished with cash, and "fadsurfing" hailed. Immelt demanded and got supplicants in management and on the board.

An old NBC PR hand Beth Comstock kissed Immelt's ring, packaged his enthusiasm of the moment, and was promoted to a newly-created Chief Marketing Officer position and then to Vice Chairman.

GE directors enjoyed cushy and prestigious sinecures worth more than $300,000 annually. Having a whopping 16 independent directors (in 2016) made the board, best case, an unwieldy oversight instrument.

Before the financial crisis, like Welch, Immelt relied on outsized growth from GE Capital. Its traditional sweet spot had been niche markets banks found difficult to serve. For example, its multi-national retail-credit-card business was world-class. However, as it become a financial-services colossus it had to play in broader markets, and took on more risk; risk in hindsight it often didn't understand or price for.

The former football player bet big, spending $14 billion expanding in the oil and gas industry just before the fracking revolution.

GE was a leader in the global power-systems oligopoly. Power Systems management suspected French competitor Alstom was in trouble – it was, and that there might be an opportunity to scoop up assets on the cheap. If Immelt had been disciplined and prepared to walk, perhaps there would have been. But he was resolved to do something big and industrial, to bolster the story he was telling Wall Street. Notwithstanding an ultimately rich price for Alstom's power business, and onerous demands by the French government, European Commission, and U.S. DOJ, he did the deal. In stark contrast Welch, who'd postponed his retirement to acquire Honeywell as the capstone of his career, ultimately balked at the EC's conditions.

The Alstom deal with $6.2 billion in negative tangible assets, proved disastrous. In 2015 $13.5 billion in goodwill (the difference between what was paid and tangible assets) was booked. In 2016 goodwill was increased to $17.3 billion based on newly-discovered synergies, conveniently reducing costs and boosting earnings. Lo, in 2018 GE wrote down a whopping $22 billion in goodwill.

Immelt spent more than $5 billion trying to build a world-class industrial software company. Designers counterfeited an app working to demonstrate it for the boss. Immelt loved it. Success theater.

Whereas Welch cut corporate overhead, Immelt built it up to support his vision.

Capturing something of the man's self-importance, globetrotting Immelt secretly had an extra corporate jet follow his jet as backup, and denied knowing about it. At GE's Crotonville management center a car ferried the former standout athlete a couple hundred feet from the helipad to the front door.

Welch was an electric, enormously ambitious, and not necessarily likeable man, who delivered. Reality wasn't optional. Under his successor truth was what the chief wanted it to be. Ultimately however, reality won't be denied.

To prop up the story, Immelt's GE spent more than $150 billion on stock buybacks, and, stunningly, borrowed to pay dividends. Accounting became aggressive and in some cases fraudulent. In 2009 the SEC fined GE $50 million for "improper accounting methods to increase its reported earnings or revenues and avoid reporting negative financial results." Power Systems made untenable assumptions about the value of long-term service contracts.

Storied GE was on the Dow Jones Industrial Average from 1907 until 2018. Under Immelt it was the worst performer of any company remaining on the index.

Welch gave himself an F for selecting his successor.

GE's independent board directors also deserve an F for not insisting on an independent chairman, and then, for tolerating sixteen long years of sustained value destruction by the CEO. During Immelt's CEO tenure from September 7, 2001 to August 1, 2017 the Dow increased 121% and GE stock, with a tsunami of buybacks, fell 43%.

But Immelt became a very rich man at shareholders' expense.

In 2017 longstanding director Vanguard's Jack Brennan declared "Jeff has positioned the company incredibly well for the future." On what planet was he living? GE's directors "liked" and perhaps were cowed by Immelt. Their paramount duty, however, was to manage him and look out for shareholders' interests. They failed miserably and should be in the pillory.

Today with a market cap of $54 billion GE is a shadow of its former self.

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