The Epic Failure of General Electric's Board Shows What Went So Wrong with Silicon Valley Bank: SVB's recent high-profile failure underscores the importance of having a knowledgeable, engaged, and titanium-spined board

By Eric Grover

The American Spectator

March 22, 2023

In *Power Failure: The Rise and Fall of An American Icon*, William D. Cohan masterfully chronicles the creation, ascent, and destruction of America's greatest company, General Electric, from its founding in 1892 to the announcement in 2021 of its final dismantlement. It's riveting. He captures the men who built and shaped GE, including its first president, Charlie Coffin; reformer Ralph Cordiner; the stately Reg Jones; and "Neutron Jack" Welch, arguably its greatest CEO.

And *Power Failure* is an epic tragedy of governance failure by a board of directors that neglected its duty to protect shareholders' interests and police an imperial CEO — the worst in GE's history, Jeff Immelt.

After its creation, GE’s portfolio of businesses increased enormously. It got into producing radar systems, ordnance, aircraft engines, radio, medical systems, consumer appliances, lightbulbs, locomotives, plastics, gas and nuclear power systems, computers, and television, and it began providing computer timesharing and credit — initially financing its own goods, and then much more.

In 1973, former auditor and GE CFO Reg Jones became chairman and CEO. Jones was the “ultimate buttoned-down, chain-smoking, patrician corporate CEO.” On his watch, the conservatively managed conglomerate’s revenue and income doubled and tripled, respectively.

Jones handed the baton to Jack Welch, who was cut from a different cloth.

Chemical engineer Welch had fire in his belly, and he wanted everyone at GE to have that same fire. From the get-go, he relentlessly pushed for growth. Welch ruthlessly pared headcount, earning the sobriquet “Neutron Jack” because he eliminated people but left the buildings standing. He divested businesses that couldn’t plausibly be No. 1 or 2 in their market while acquiring to strengthen existing GE businesses and enter new growth businesses.

Welch had a huge impact on the company’s culture. It was open, consciously bold and aggressive, and aboveboard, and it enjoyed an earned sense of superiority in the GE way. The right stuff was making one’s commitments — numbers — and stretching for more. Over two decades GE grew, quarter-after-quarter making its numbers. The market loved it.

Theory said conglomerates are inefficient, that shareholders are better served owning the constituent businesses separately. But GE and its haloed management system were the exception.

Critics charged that earnings were “managed.” To be sure, selling assets — and adjusting reserves and accruals — gave management discretion to present less-choppy growth quarter-to-quarter. Nevertheless, GE, particularly its finance arm, grew for real.

Naysayers contended that GE Capital’s phenomenal growth was a problem. They argued that industrial analysts covering GE didn’t understand its risks, it was less heavily regulated than banks, it benefited from GE’s AAA credit rating, and its earnings should have been valued like a bank’s. Fair enough. But most of GE Capital’s businesses were good. A profitable, well-managed credit card business isn’t a bad business because it’s owned by an industrial titan.

With Neutron Jack at the helm, GE’s performance over two decades was spectacular. It became the most valuable company on the planet, and its culture and management system models to be aspired to.

Welch made mistakes. His acquisition with minimal due diligence of investment bank Kidder, Peabody & Co. proved a disaster. And he forced out the head of GE Capital, Gary Wendt, over a divorce. Under Wendt, GE Capital had delivered most of GE's earnings growth, enabling Welch to keep Wall Street in awe. There was, moreover, a whiff of hypocrisy, as Welch had one divorce under his belt and a history of womanizing.

But while Welch could be a SOB, he was brilliant, studied his brief, possessed a keen understanding of people, pressed management for performance, and promoted and surrounded himself with the smartest and most competent talent he could find. He took counsel and could be argued out of decisions, unlike his handpicked successor.

Welch conducted a heralded succession process. The board deferred to Jack's pick: Jeff Immelt — a former Dartmouth College football tackle who was at heart a salesman. It was a fateful decision, one Welch and shareholders would soon come to regret: When Immelt was selected, GE was the most valuable and, possibly, most admired company in the world. That changed precipitously under Jeff's reign.

GE soon became a company of "success theater" rather than one of making one's commitments. Under Immelt's 16-year reign of value destruction, GE was the worst performer of companies on the Dow Jones index, before it was ultimately delisted. While the S&P 500 rose 207 percent, GE stock fell 27 percent.

Immelt’s approach to mergers and acquisitions (M&A) was to buy high and sell low. In deal heat, he overpaid for French power-systems behemoth Alstom. He sold NBCUniversal for a song to Comcast.

His M&A method also lacked strategic coherence. In 2017, GE acquired a majority of oil-services giant Baker Hughes, only to decide three years later to spin it off.

After the financial crisis, GE Capital was designated a systematically important financial institution (SIFI). The notion that a failed GE Capital operating in bankruptcy would bring down the financial system was risible. Nonetheless, being a SIFI increased GE Capital’s regulatory burden. The former Dartmouth tackle, who’d never understood the finance business like Welch and Wendt, resolved to wind it down.

Financial institutions worldwide scooped up valuable assets from Jeff’s fire sale. GE Capital’s Dave Nissen had built a global credit card and consumer finance powerhouse. Immelt IPOed the U.S. credit card business as Synchrony and sold its offshore businesses, often at distress prices. He divested most of GE Capital’s insurance business, Genworth, but, seemingly unthinkingly, kept life insurance and long-term health care liabilities that proved catastrophic.

Immelt’s GE misallocated capital. Too much was spent buying back shares instead of paying down debt and investing in cashgenerating growth businesses, where GE had or might develop an advantage. Imperial Immelt also plowed billions of dollars into his quixotic “big idea” of turning GE into a software powerhouse.

And he destroyed GE’s legendary culture. Immelt’s GE was one of “superficial” congeniality. The right stuff was ritualistically celebrating Jeff’s “big ideas.”

Where Welch relished being challenged, Immelt brooked no dissent. The former tackle, who flew around the world with a backup corporate jet trailing his own, surrounded himself with sycophants and pushed out strong leaders who challenged him. Smart, competent high performers like Steve Bolze, Dave Calhoun, Denis Nayden, Gary Reiner, John Krenicki, and Bob Wright left. Immelt was loyal to toadies who “help[ed] perpetuate” his “reality and story.”

Immelt brought in activist investor Trian Partners, hoping its involvement would bolster market confidence in a floundering GE. Impatient for a return on its investment, the company hastened his departure and the industrial titan’s dismantlement.

Cohan characterizes Immelt’s stubborn public commitment toward the end to unachievable earnings bogies as “delusional.” On May 24, 2017, presenting GE’s outlook, Jeff “blew himself up.” Cohen writes, “For some deranged reason, [Immelt] still believed GE would make the number ($2 per share in 2018) promised to investors.” Cohan describes his speech as “a combination of corporate pabulum and technical jargon," and Immelt as barely able to "muster coherent thoughts."

There was no longer any place for Immelt to hide. His embarrassing performance forced GE's board to do what it should have done a decade sooner: fire its badly performing CEO.

Immelt, however, left a rich man. He went on to become a venture partner at New Enterprise Associates, and — ironically, given his transformation of GE — to lecture at Stanford Graduate School of Business on leadership for digital industrial transformation.

GE Capital veteran John Flannery replaced Immelt. Flannery developed the "Eisenhower" plan to break up the conglomerate. He added former Danaher CEO Larry Culp to the board, thinking he could help right what ailed a struggling GE.

After 15 months, "piranha" Culp staged "a palace coup." Flannery was sacked. Culp took the reins with a four-year employment contract that included juicy stock incentives rather than customary at-will employment. He effected Flannery's plan. GE stockholders remained beleaguered.

For a couple years, perhaps, the board's deference was justifiable; beyond that, however, it was malfeasance. With engaged directors with spine, a great firm should weather one mediocre — or even horrible — CEO.

In their 1932 classic *The Modern Corporation and Private Property*, Adolf A. Beale and Gardiner C. Means highlight the danger of public corporations' management pursuing their own interests rather than that of the widely dispersed shareholders'. A board's raison d'être is to ensure that management acts in shareholders' interests: maximizing corporations' long-term profits.

GE was a textbook case of an immense, complex public company with professional managers and widely dispersed individual and institutional owners in no position to oversee management. Its board had a weighty responsibility.

The Sage of Omaha, Warren Buffett, observed: "When seeking directors, CEOs don't look for pit bulls. It's the cocker spaniel that gets taken home." Setting aside Home Depot co-founder Ken Langone, who Immelt pushed out, GE's credentialed, richly compensated directors weren't even cocker spaniels. Tellingly, they refused Cohan's interview requests.

For 16 long years of complacency in the face of relentless value destruction, GE directors enjoyed lucrative sinecures while shirking their duty to protect shareholders' interests and fire an abysmal CEO.

Near the end, Trian Partners' GE director, Ed Garden, demanded that the board resign. Former MIT president Susan Hockfield confessed: “Maybe we should resign. I mean let’s face it, this thing blew up on our watch.” No kidding.

In February, GE’s board mustered a modicum of backbone, canceling stock awards for Culp originally valued at $20 million because of underperformance.

Silicon Valley Bank’s recent high-profile failure underscores the importance of having a knowledgeable, engaged, and titanium-spined board overseeing management. SVB’s board, which had only one banker, passively watched as its highly concentrated uninsured liability deposits exploded, and management, in search of yield and to keep its regulators happy, loaded up the balance sheet with tens of billions of dollars of putatively low-risk, long-term treasuries and mortgage-backed securities. Neither the San Francisco Fed, the Federal Deposit Insurance Corp., or SVB’s board worried about the basic, catastrophic, and eminently foreseeable risk of inflation and higher interest rates, the fall in the market value of its assets, and a run on deposits, making it insolvent.

Power Failure shines a spotlight on how GE’s board rolled over for the CEO’s success theater, watching while America’s most iconic company was destroyed and shareholders devastated. GE directors charged with overseeing Immelt should be publicly shamed in a figurative pillory on Wall Street.

Eric Grover is principal at Intrepid Ventures, advising global payment networks, processors, and financial institutions.