Book review: Ungracefully falling from Grace: GE's hard landing after a century

Lights Out: Pride, Delusion and the Fall of General Electric
by *Thomas Gryta and Ted Mann*
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The longevity and performance of an organization have been subject to many research projects. Conventional wisdom suggests that strategy is the determinant of long-term performance; at the same time, leadership style also influences corporate longevity (Burgelman and Grove, 2007). A number of studies have been conducted on successful, long-lasting organizations, some of which were published in popular literature in the form of bestselling books namely, *In Search of Excellence, Built to Last* and *Good to Great*. Governance of the organization has been reported to be an explanatory variable, linked to both longevity and performance – the role of CEO, in particular, has been highlighted who at times may commit to losing ventures, and the flawed judgment can result in steps ranging from earnings decline to the collapse of the company (Toney and Brown, 1997). There have been just a handful of organizations that continued to innovate, develop new business lines and survive over a century, General Electric (GE) being one. With a lineage that goes back to Thomas A. Edison, GE was established in 1892 and then went on to become one of the world's most successful business enterprises. It had the rare distinction of being part of the Dow Jones Industrial Average for over a century since the inception of the index in 1896, the place it continued to occupy till 2018. The legendary organization set benchmarks in operational excellence as well as in developing a leadership pipeline. However, the turn of the 21st century saw its fortune take a turn.

Lights Out is an unbiased and incisive view of the fall from the greatness of one of the most successful business corporations in America. While governance and leadership failure has been evident at GE, it highlights the bigger business perspective of super powerful CEOs overshadowing the board. The tome finds its name on the top of the list "recommended to be read by all leaders" coming from none other than Bill Gates. It addresses the various dimensions of management study related to governance, highlights the role that the board of directors needs to play in driving the growth of an organization while keeping the CEO in check at the same time.

Authored by Thomas Gryta and Ted Mann, both reporters at the *Wall Street Journal*, a publication cited many times in the book, this work is a result of research spanning over six years. It is based on interviews of a few hundred people associated with GE – executives, board members, bankers, lawyers, consultants and investors. Although it has 57 chapters, a high number for any business book which at times makes the flow a bit abrupt, the journalistic background of authors helped put together a fast-paced narrative. The book covers a wide range of topics from intricacies of investor relations to marketing to deal-making at GE. However, some topics are barely touched and the reader is left with the need to get into more depth at a few places.

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The book follows more or less a chronological order. It gives the historical perspective of GE's founding years and the role played by J P Morgan by building a business case of innovations of Thomas A Edison. The major focus of the book, however, is the way it was governed in the first two decades of the 21st century, primarily the tenure of Jeff Immelt as the CEO. The context is set with a background of organization developed by legendary business leaders like Jack Welch, one of the most successful CEOs across the world, who reigned for two decades till 2001. During his tenure, the revenues quintupled to $127 billion, earnings went up from $1.5 billion to $12 billion and stock price jumped 40 times. More than the performance, Welch's impact on performance culture – "rank and yank", from "elaborate planning to plans" and setting the "numbers obsessed culture" for winning at any cost has been highlighted. The famed succession process at GE gets prominence. Though the board is said to have been involved in the succession process, Immelt was finalized as the new CEO by the famous "gut of Welch" and the board stood by it, in the words of authors. It also brings out the dark side of the bitter succession race with loss of key talent every time new CEO is announced as the other contenders to the role are expected to leave.

GE was often called a Generous Employer and it continued to remain the only conglomerate to outperform the broader indices. The book shows the challenges of managing the behemoth called GE with multiple lines of businesses – as diverse as plastics to jet engines and financing. Though researchers have developed a model to predict the allocation of resources in conglomerates towards profit maximization (Maksimovic and Phillips, 2002), investors and Wall Street continue to discount their valuation. However, GE bucked the trend and remained a bellwether company, for years.

The authors have reported that GE used to "manage earnings" for years under successive CEOs and CFOs. Apparently, the business development team would always be looking for pieces of business that could be sold off to make money – the role of GE capital's accounting practices in "smoothening out rough quarters" has thus been described. This would classify to be called as "manipulation of reported profits" under the increased surveillance and compliance requirements in the post-Enron world. Honeypots were used to provide as least details as possible to investors and analysts. The authors have taken pains to explain the high-performance-driven culture at GE where managers were expected to meet the targets come what may and any shortfall from projected earnings would be matched by tricks of GE Capital. The authors could have done a better job by quantifying the extent of this so-called fraud by restating the financials to the extent possible but maybe that is beyond the scope of this book.

The book highlights the change of strategic direction that a company takes with the change of leadership. Immelt reversed quite a few strategies that Welch had deployed, for instance, his corrective actions on GE Capital and the Reinsurance Business. Immelt's character has been painted as a leader with high optimism, coming from "being consummate salesman" and someone who would "chase the fad". The authors find fault with Immelt for overpaying in acquisitions and misjudging the market opportunity (getting into oil and gas business when the world had started moving to renewables). The authors somehow seem to be getting too critical by going into the minutest details of Immelt who is said to have got the corporate jets repainted. However, at the same time, it shows the in-depth research done by them. The authors have cast doubt on the ability of successive leaders from Welch and Immelt to understand the intricacies of this business.

The years of distress for the company started with GE Capital running low on cash, cut in dividends (done in 2009, first time in 70 years), which led to fall in stock price from $30 to $6. While a number of external factors played a role in this (global financial crisis of 2007–2008 and its reliance on GE Capital), many of these were in making in the years prior to that – though in this journalistic piece, the authors seem not to have analyzed those in-depth. Post this, GE Capital's role in the behemoth was shrunk. The authors somehow miss out on giving the exact details of assets that were restructured and the way it was executed.

The tone of the book tends to give the feeling of GE-bashing at certain places – the contradiction in GE's slogan "bringing good things to life" and its efforts in avoiding to pay for polluting the Hudson River is one such case. Does this mean that the industrial behemoth in GE was not a good corporate citizen? It definitely seems so, going by the account given by authors as not many positives about the organization are mentioned. The fact that GE gave employment to hundreds of thousands, played a key role in driving innovations and the economy, it seems unlikely that everything was wrong with this century-old institution, "started by Edison, the Steve Jobs of his time". GE did attempt to bring in the entrepreneurial spirits and agility back by tapping into the ideas of start-ups by adopting measures like the association with Quirky, a platform for innovative business ideas. Somehow these did not get adequate attention in the book or probably they were half-baked measures by the leadership?

The board is projected to be not doing its role ("some directors interested only in corporate jets"). The strong position of CEO (Immelt) in a setup like GE made the board merely act as a rubber stamp – it did not ask tough or critical questions (for instance about "money to be spent on setting up software business within GE"). This is quite unusual in a country like US with strong capital markets, governance and regulatory mechanisms.

GE's decline is a story of governance – laxity, lack of oversight and even indecision by directors ("the board gave sixteen years to Immelt, but just fourteen months to his successor, John Flannery"). The excesses of the executive compensation have been highlighted too – nearly billion dollars compensation to Welch, jets and other things to Immelt. The top-down culture along with size, which was its biggest advantage, became its biggest weakness. Board members were selected without a comprehensive search and the fate of those few who would challenge CEO (Immelt) has been highlighted. This is probably the perfect case where the CEO occupying the position of chairman of the board becomes a super-CEO with least accountability. Could the separation of CEO and chairman of the board in firms as has been advocated by many shareholder activists and regulators prevent this? Research in this field has given mixed results – the model of splitting the positions is reported not to be a panacea but the independent leadership of the board is said to work (Lorsch and Zelleke, 2005). The board meetings at GE used to be a whirlwind affair – "some directors often drifting off to sleep" with the chapter appropriately titled "Asleep at the Switch". The new CEO, Flannery worked to reorganize the board and reduced the strength from 18 members to 12. He is projected to be indecisive and was soon replaced with Larry Culp, the first time that the century-old institution brought in an outsider CEO in the year 2018.

The $15 billion hole in the insurance business appeared in 2017–2018 in spite of GE having sold the insurance business long ago. There cannot be a bigger example of dereliction than this as many investors, executives, directors and even the former CEO Immelt claimed of not being aware of this.

The book is largely based on published speeches, news articles and the announcements of that time. It would be pertinent to do a little more research on the numbers and understand the rationale of decisions taken since hindsight is always 20/20. Some of the quoted people could be interviewed again to seek reflections. That would have brought it closer to longitudinal research and enrich it further. Despite an occasional weak link, it is a page-turner for everybody associated with the study of strategy, governance and leadership in organizations.

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Ajay Arora is a qualified Management Practitioner and Mechanical Engineer, having over 25 years of varied experience in the industry across leading organizations like Maruti-Suzuki, India's leading car manufacturing company, and Hero Enterprise, part of a diversified business house in India with interests spanning across two-wheelers, steel, auto components, insurance, education and real estate, among others. While leading the Strategic Projects at Hero, he has helped set up successful business ventures. Additionally, he has contributed to the development of the entrepreneurship ecosystem in the country. He is pursuing the doctoral program at the Indian Institute of Management (Shillong), with Strategic Management as the primary area of interest for research. He has been invited for guest lectures in b-schools, including the prestigious Indian School of Business (ISB), Hyderabad.