

Two leaders, two paths: A case study of comparing GE's two leaderships

Charles B. Abell
Eastern Kentucky University

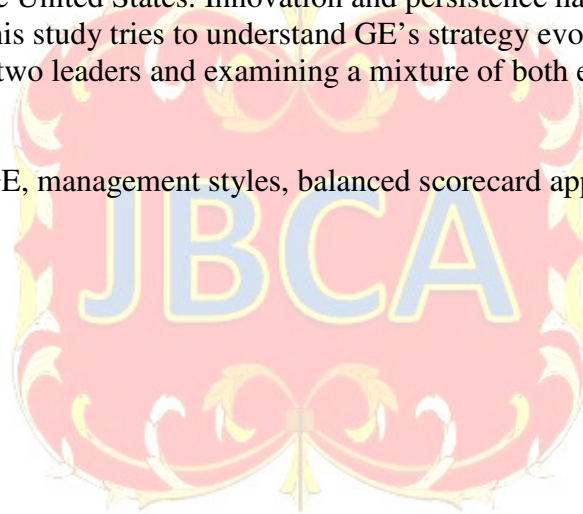
Jared Robbins
Eastern Kentucky University

Qian Xiao
Eastern Kentucky University

ABSTRACT

The industrial roots of GE has been one of the companies that has historically been the economic backbone of the United States. Innovation and persistence has driven GE to be a pioneer in its industry. This study tries to understand GE's strategy evolution and its success and decline by comparing its two leaders and examining a mixture of both external factors and internal factors.

Keywords: Leadership, GE, management styles, balanced scorecard approach



Copyright statement: Authors retain the copyright to the manuscripts published in AABRI journals. Please see the AABRI Copyright Policy at <http://www.aabri.com/copyright.html>

From manufacturing facilities to private households, the General Electric emblem can be spotted on a plethora of products. The industrial roots of GE has been one of the companies that has historically been the economic backbone of the United States. Innovation and persistence has driven GE to be a pioneer in its industry. Whether a private citizen needed an appliance or a manufacturer needed to purchase a jet turbine, General Electric has been there to fulfill those needs. Through the company's mission equation every strategic step can be calculated. It basically states that GE looks at what the world needs and multiplies that by a belief in a better way and a relentless drive to invent things that matter which produces a world that works better. Understanding GE's recent evolution will be easier if we look at their strategy through this equation. Under Jack Welch (1981-2001), GE was an economic powerhouse. One might wonder if the strategy for two decades under Jack Welch was superior to the one they are implementing now. After all, the data seems to support that claim. GE's drive to innovate was no different in the late 90's than it is today. So what was different? Jeffrey Immelt became CEO in 2001 and has since then seen GE's financial statistics plummet over his tenure. This case is important to understand because the attribution of General Electric's success and decline should be linked to either internal factors, external factors, or a mixture of both. Data in a vacuum will not produce the answer. Rather, the context in which the data originated can tell the whole story.

It is important to recognize GE's current state of affairs and their current state of mind. Since 2008 (financial crisis), GE has seen an upward-sloping appreciation of its per share stock price. In 2008 the company hit rock bottom at under \$6 a share, but since that time has gradually climbed to around \$30 a share. Because of the crisis, GE had a decision to make. Their crisis plan was determined by a matrix grid. The course was charted based on the fact that the financial crisis had an enduring impact and needed to be addressed with a major change. This produced articles to be written like *How Ge Exorcised the Ghost of Jack Welch to Become a 124-Year-Old Startup* by Devin Leonard and Rick Clough. In this article it is explained that under Immelt's leadership GE has moved headquarters from Connecticut to Boston, sold off its appliance division, reduced its reliance on GE capital, and hired hundreds of software developers. GE is currently pursuing the "Internet of Things" industry. This is a growing trend that refers to adding network connections to hardware not considered computers. GE believes that it has a chance to be the world leader in the internet of really big things because of its industrial roots (Clough, 2016).

To get to this point GE needed to sell some assets. Jack Welch created a huge conglomerate with a well-diversified portfolio. Some would argue that it was too heavily invested in some areas, but nonetheless it was a large, spread-out company. Jeffrey Immelt's decisions to shed assets included a GE Capital spinoff, selling NBC to Comcast, and selling the appliance division to Haier. There were other divestments, but those were the most substantial transactions. This begun the transformation of a giant company into a digital player. GE has taken an entrepreneurial mindset by funding its efforts through the selling and restructuring of its assets. Being the giant entrepreneur that it is, General Electric wants to address the needs where domain expertise and digital expertise intersect (Charan, 2016). The development of the new software Predix is meant to address this issue. This is a cloud-based operating system that can be used in industrial applications. The software is claimed to have the ability to optimize an entire system of industrial equipment including: trains, jets, manufacturing machines, etc. It creates efficiency through the collection of data from multiple sources such as cameras, weather forecasts, and other web data. This will bring a whole new level of efficiency for companies world-wide (Woods, 2016). For Jeffrey Immelt, the possibilities of Predix are endless if

successful. He obviously sees great potential with the shift of corporate strategy towards digitization. GE is focusing back on its industrial roots with a more modern approach. Cloud-based services are trending because of a global economy, and GE sees upcoming needs in this global market. This positioning is meant to take advantage of these opportunities.

So what does this mean for the average investor sitting at his desk trying to gauge the outlook for GE? Historically, you know that basic financial ratios and statistics were much better under the tenure of Jack Welch. The portfolio housed under GE was heavily involved in financial services in the 90's up until the financial crisis. Jeffrey Immelt is now trying to adapt the company to a new external environment. This is an environment that is going to rely heavily only digital services. Companies that would once be considered competitors are no longer so in any significant sense. These companies used to be a business like Hitachi, Whirlpool, and Siemens out of Europe. Now, the main competitor could be considered to be someone like IBM. IBM has their own version of Predix that was released in 2014. This is also a cloud-based software to address the connection of the internet of things (Rouse, 2014). Future revenue for GE is going to come from a new composition of sources from now on. Digital/Industrial services is going to be a large portion of that incoming revenue. With GE heading in a new direction it is going to be important to look back on how they got to where they are now. Key points to address will include whether or not Immelt's record as CEO is a strong one. If it isn't a strong record, how could he have managed the company differently? Should he have modeled his decisions after the great Jack Welch? Are there other factors that can measure success of CEO other than pure financial statistics? None of these questions has one single answer, but rather need to be taken in context and answered with relevancy.

Jack Welch's GE began to run the company with a market cap of \$13 billion and ended at \$280 billion. This remarkable growth in two decades won him the Manager of the Century award from Fortune magazine. Key financial statistics included 5400% return on stock (adjusted for dividends and stock splits) and the largest market capitalization value of any other company (Samaha, 2014). GE was also substantially outperforming the S&P 500 throughout much of his tenure. With much of his reign occurring during times of economic boom, Welch helped to approve over 1000 acquisitions. This was one of the driving forces that accelerated the market cap growth of GE. Like many politicians, Jack had his signature legislation for the company. In 1995 new policy standards were adopted. These new standards were known as Six Sigma. Motorola was the sole company using these standards at the time, and Welch noticed the cost it was eliminating for Motorola's bottom-line. The premise behind the concept was to keep product variation within three sigma of the mean. If a process had variance three sigma away from the mean in any direction then correction was needed. Many employees had to be trained through a 13-day, 100 hour program that addressed the following points: definition or identification of the process, measurement of process output, analyzing process inputs for criticality, improving process by modifying inputs, and the controlling process by controlling the appropriate input. By implementing these new control standards it saved GE \$5 billion over 5 years (Nayab, 2011). It should be fair to say that GE held a competitive advantage with Jack Welch at the helm. If you look at growth, market cap, and other valuation measures there should be no doubt that the future is bright for GE. So why is the stock price half the value of when Welch handed over leadership to Immelt? Logical thinking would suggest that continuing the decision model of Jack Welch should take GE to the promise land. However, rational thinking takes into account context and underlying factors.

The financial statistics owned by Immelt clearly do not compare to those that GE produced under Welch. Since Immelt took over in 2001 there has been only a 9.4% return on the stock (including dividends) and the P/E (29.12) is almost half of what it was (Samaha, 2014). The market capitalization rank is now 11th worldwide and earnings have lagged the S&P 500 the past few years following the financial crisis (Motley Fool, 2012). All that being said, it is important to take these numbers into context. Immelt took over the company right before the national disaster of 9/11 that was followed by a recession. The 2008 financial crisis hit the company hard as it had a large portion of revenue still tied up in financial services. This crisis was also followed by a recession. These two major events are the reasons for his lack-luster numbers. One could argue that he should be able to position the company to weather those storms. Another could argue that Jack Welch had the opportunity to address the heavy reliance GE had on financial services. Either way we get into arguing forecasting the unknown which no CEO can do. As a CEO you can be proactive in some cases but there are others where you can only be reactive. It seems that Mr. Immelt has had to deal with the cards that life has dealt him and make the best of it.

It is interesting when one steps back and observes the résumé of Jeffrey Immelt on its own merit rather than comparing it to the history of Jack Welch. What you find is that even through two recessions and a large-scale, entrepreneurial-like startup Immelt has had steady stock appreciation since 2009. GE is actually trading at a premium compared to the average P/E of the S&P 500 (Samaha, 2014). The market cap is \$261 billion even after all the selloffs of assets. That is only \$19 billion less than when Welch stepped down. So judging the performance shouldn't just be on results alone, but how and when those results were obtained. This is where different assessment measures are appropriate. The balanced scorecard approach to assessing performance takes into account non-financial measures as well as traditional financial measures. The corporate social responsibility movement has pushed this idea to the forefront and is relevant to this discussion. When taking into consideration more than just financial statistics, Jeffrey Immelt can observe an array of different indicators to make better decisions that affect more than just shareholders. Increasing the firm's value to its owners has always been the assumed priority of many CEOs. However, stock price is not always the immediate problem addressed for corporations that understand their actions affect more than just the shareholders (Crawford, 2005).

Jack Welch led General Electric with a very unique business strategy. Welch believed that employees who were underperforming should be removed from the company. He was also a strong believer in GE being the top business in every market. Welch believed that GE should dominate as many markets as possible. This diversification of market participation allowed GE to boom during the 80's through the 90's because most of GE's revenue was generated through their capital (A Hard Act To Follow, 2016). The American economy throughout the 1990's was experiencing a boom like never before. Jack Welch and General Electric felt the benefits of this great economic boom. Throughout Welch's tenure during this boom, GE's revenues increased from \$26 billion to \$130 billion when Welch retired in September of 2001.

Jeff Immelt takes over as CEO of General Electric on September 7th, 2001, and was faced with outside factors immediately. Just for days later the United States was faced with the terrorist attacks on the World Trade Centers. This attack caused markets to fall, and General Electric felt this personally. According to an article written by investors.com, GE lost \$600 million in a single day in their insurance business following the days of the attacks. Immelt was faced with the challenge of trying to rebuild GE by restructuring. Immelt's management style

throughout this process was rather different from Jack Welch's. Immelt believed in the incorporation of all employees in the decision making. Immelt also did away with removing underperforming employees which was implemented by Welch. GE experienced steady growth until about October of 2007, when the stock price fell drastically along with the entire market. The markets would fall in 2008, and the economy experienced the Great Recession. Immelt once again had to deal with factors that affect GE that may have been out of his control. Since the Great Recession, Jeff Immelt has had to do what he can to modernize the company. GE has experienced a trending pattern of growth since the recession (Stern, 2016).

Jack Welch and Jeff Immelt clearly had different types of management styles. Welch was strong willed and dominated business decisions while Immelt believed in collaborating with employees and being a very welcoming individual. Arguments can be made that under Welch's tenure GE flourished compared to Immelt's tenure, but outside factors such as the terrorist attacks of 9/11 and the financial crisis of 2008 must be considered when comparing the two. Jeff Immelt was faced with outlying events that greatly affected markets that Jack Welch did not have to face. These events played a large role when determining the performance and financial state of General Electric during Immelt's tenure.

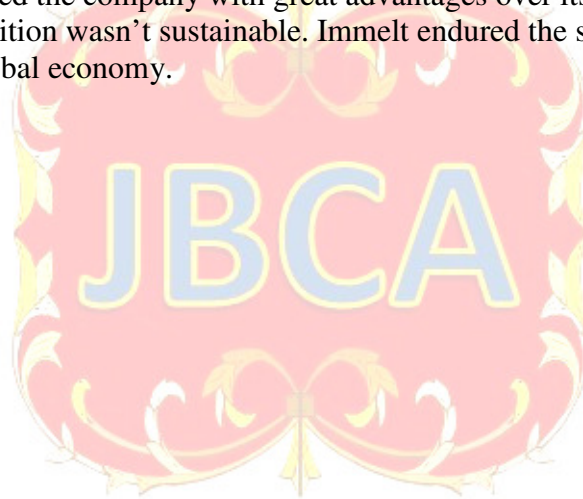
Jack Welch's era while at General Electric is considered a great success by most when financial performance is being measured. Jeff Immelt has been less successful based on financial performance, but has still made some successful business decisions during his time as CEO. However, using a balanced scorecard or a triple bottom line approach may slightly alter the assessment of both CEO's. The balanced scorecard approach takes into account 4 different questions: (1) How do customers view us? (2) How do we create value? (3) What core competencies do we need? (4) how do shareholders view us? The triple bottom line encompasses three aspects which are: economic, social, and ecological.

Under Jack Welch's tenure using the balance scorecard approach the four questions must be addressed. Customers had mostly positive views of Welch. This is mainly due to his driving passion to dominate each market by producing the best product available. Welch used an approach of creating value through being the top in every industry GE was involved in. Core competencies during the Welch era were that all employees should be driven to help GE succeed and if not then that employee was removed. Shareholders' viewed GE during the Welch era very positively. Shareholders' experienced financial growth while Welch was CEO. If the triple bottom line approach is applied GE must be assessed on the three aspects. Economic success cannot be questioned during the Welch era due the financial success that was achieved. When it comes to the social aspect of the assessment, Welch did not necessarily excel. Welch's strategy of eliminating several employees each year due to bad performance lead to employees feeling unwanted pressure upon them while at work. Ecologically during the Welch era, GE did not necessarily seek out ecological benefits of business decisions. Welch was primarily concerned with company efficiency and growth.

Jeff Immelt's era at GE, assessing the company based on the balanced scorecard approach, can be different than using primarily financial assessments. Customers have primarily been satisfied with the products even during the Immelt era. Value creation by Immelt is slightly different than that of Welch's. Immelt believes that value is created by being collaborative with other employees. He also is trying to create value through new innovative industries such as having a cloud storage service. Jeff Immelt determined that the core competencies needed to succeed is by concentrating on what General Electric does well. Also he believes that by investing in R&D, GE can improve themselves internally. Shareholders' may have a more

negative view of Immelt. This is primarily due to the reduction of stock price caused by some outlying factors as well as some decisions made by Immelt. Immelt excels in two of the three aspects of the triple bottom line approach. Socially, GE employees enjoy Immelt's collaborative mentality. Many say he is much more approachable than Welch was. Immelt has a sincere concern for the responsibility of GE to ensure the stakeholders involved with the company are satisfied (Grading Jeff Immelt, 2016). Ecologically, Immelt has invested in a few different industries that are ecologically positive. One major acquisition was in wind energy. Economically, Immelt has felt some negativity. The stock price of GE has trended primarily positive in growth during his tenure, but there were also times of fluctuation and question which brought the negativity.

No matter the approaches used to assess GE during the Welch era, it would have been extremely difficult to have prepared the company for the events that were to come after Immelt takes over. Even if Jack Welch concentrates more of his efforts on broader issues than financial performance GE was still destined for a downturn. Like many companies across the world, the Great Recession caused GE to lose value along with its financial growth momentum, and Welch broadening his concentrations to other factors would not have mitigated this from happening. Welch may have positioned the company with great advantages over its competitors, but because of external events the position wasn't sustainable. Immelt endured the storm and GE is in a better position for the future global economy.



Reference

- A Hard Act To Follow*. (2016). Retrieved from The Economist:
<http://www.economist.com/news/business/21605916-it-has-taken-ges-boss-jeffrey-immelt-13-years-escape-legacy-his-predecessor-jack>
- Charan, R. (2016, Feb 26). *How to Transform a Traditional Giant into a Digital One*. (H. B. Review, Editor) Retrieved 2017, from hbr.org: <https://hbr.org/2016/02/how-to-transform-a-traditional-giant-into-a-digital-one>
- Clough, D. L. (2016, March Mar 17). *How GE Exorcised the Ghost of Jack Welch to Become a 124-Year-Old Startup*. Retrieved 2017, from bloomberg.com:
<https://www.bloomberg.com/news/articles/2016-03-17/how-ge-exorcised-the-ghost-of-jack-welch-to-become-a-124-year-old-startup>
- Crawford, D. (2005, Oct 23). *The Balanced Scorecard and Corporate Social Responsibility: Aligning Values for Profit*. Retrieved from greenbiz.com:
<https://www.greenbiz.com/news/2005/10/23/balanced-scorecard-and-corporate-social-responsibility-aligning-values-profit>
- Grading Jeff Immelt*. (2016). Retrieved from fortune.com:
<http://fortune.com/2011/02/10/grading-jeff-immelt>
- Motley Fool. (2012, Jun 04). *Stocks for the Long Run: General Electric vs. the S&P 500*. Retrieved from fool.com: <https://www.fool.com/investing/general/2012/06/04/stocks-for-the-long-run-general-electric-vs-the-s.aspx>
- Nayab. (2011). *The Story of Six Sigma and GE*. Retrieved from brighthubpm.com:
<http://www.brighthubpm.com/change-management/69148-the-story-of-six-sigma-and-ge/>
- Rouse, M. (2014, April 20). *IBM Bluemix*. Retrieved 2017, from techtarget.com:
<http://searchcloudcomputing.techtarget.com/definition/IBM-Bluemix>
- Samaha, L. (2014, Dec 19). *General Electric CEOs: How Jeff Immelt Measures Up to Jack Welch's Legacy*. Retrieved from fool.com:
<https://www.fool.com/investing/general/2014/12/09/general-electric-ceos-jack-welch-vs-jeff-immelt.aspx>
- Stern, G. (2016). *A Tale of Two Honchos: GE's Immelt vs. Welch*. Retrieved from Investor's Business Daily: <http://www.investors.com/news/management/managing-for-success/a-tale-of-two-honchos-ges-immelt-vs-welch/>
- Woods, D. (2016, Sep 28). *What Is GE Predix Really Building?* Retrieved 2017, from forbes.com: <http://www.forbes.com/sites/danwoods/2016/09/28/what-is-ge-predix-really-building/#cc519cf4822a>