Opinion **General Electric Co**

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Flannery's GE may not hold together long

If the company becomes a mechanism for allocating capital, it has lost its soul

JOHN GAPPER

Jeff Immelt, left, the former chief executive of GE, and the new chief executive John Flannery © FT montage; Bloomberg

5 HOURS AGO John Gapper **9 comments**

John Flannery's announcement of his plans as General Electric's new chief executive, along with the halving of its dividend, led to a 7 per cent fall in its shares on Monday. It also marks the passing of the old GE.

Old GE was a conglomerate, or more politely a "multi-unit business", that made its sum worth more than the parts by having a cadre of skilled, flexible general managers to run them. "We build great people, who then build great products and services," wrote Jack Welch, former chief executive, in his hubristic autobiography *Jack*, published by chance on September 11, 2001.

New GE is more about efficient allocation of capital than great people, it seems. Mr Flannery philosophised briefly about finding "the soul of the company" but devoted more time to its brain. GE's executives would act as financial supervisors, eliminating waste in its aviation, healthcare and power divisions, he promised.

Not before time, probably. Jeff Immelt, Mr Welch's luckless successor, spent years unwinding Mr Welch's riskier bets, notably its finance arm GE Capital. He never shed GE's romanticism about its people. The author Walter Kiechel called the four decades up to 1980 "managerialism's era of good feelings, its apogee of self-confidence", but those feelings lingered at GE.

Instead of an industrial executive running a financial enterprise, as Mr Welch's GE became, a finance guy is now running an industrial company. Mr Flannery's approach is reminiscent of private equity, unsurprisingly given that he started at GE Capital and headed its private equity arm.

It must appeal to Trian Fund Management, the activist investor with a seat on GE's board.

Mr Immelt was proud of being "more willing to let people take risks without undergoing multiple reviews". Forget that with Mr Flannery: he pledged "much more analytics, discipline and central discussion of capital allocation". Meanwhile, its top leaders will, like operating executives at a private equity fund, be compensated more with shares to align them with investors.

Mr Flannery must pay greater attention to GE shareholders, given Mr Immelt's dismal record in that regard, but it is a sobering moment. GE was founded as the offshoot of Thomas Edison's Menlo Park, the first industrial research laboratory, and along with General Motors and IBM, became an exemplar of managerial capitalism. If Mr Flannery is going to strangle the latter, let us recall its strengths.

Peter Drucker, the management writer, was a devotee of general management in companies such as GM. "Knowledge, especially advanced knowledge, is always specialised. By itself, it produces nothing," he wrote. Management was the glue that bound together companies: "Without commitment [to common goals], there is no enterprise, there is only a mob."

Professional management allowed Alfred Sloan, GM's former chief executive, to overtake Ford in the 1920s. "I do not regard size as a barrier. To me, it is only a problem of management," Sloan wrote. Trained executives, some with MBAs from business schools such as Wharton, which Mr Flannery attended, made large corporations work.

The era began to break down in the 1980s, and was dealt a blow by the $25bn takeover of RJR Nabisco by the private equity firm KKR in 1989. Instead of adding value, conglomerates became associated with waste and inefficiency. "The time of old-fashioned conglomerates is over," says Joe Kaeser, chief executive of GE's rival Siemens.

GE endured longer than others, thanks to its cohesive culture. Mr Welch started his tenure as "Neutron Jack", zapper of factories and employees in the wrenching restructuring of the 1980s, and ended up as touchy-feely Crotonville Man. He adored Crotonville, GE's leadership development campus in upstate New York, where it infused executives with can-do spirit.

Mr Flannery may go the same way, but I doubt it. The pressures on GE and Siemens are not the only signs of a deteriorating belief in general management. MBA courses are less popular as more youngsters seek to become entrepreneurs and disrupters, instead of organisation men and women. Old GE was a 20th-century phenomenon.

Rather, I wonder how long new GE will hold together without such a thick layer of cultural and managerial glue. The private equity model is ultimately transactional — a fund buys an industrial asset, finds a highly-paid executive team to fix it up, seeks an exit and moves on. Once efficient allocation of capital becomes the priority, it is hard to avoid this cycle.

Siemens has taken note under Mr Kaeser with its "fleet of ships" strategy of spinning out subsidiaries while keeping a majority stake. It does not need to invest as much in its renewable energy and healthcare divisions and can redeploy capital. That may intrigue Mr Flannery, who has already announced $20bn worth of divestment.

I shall miss the soul of GE's old machine. If a company is just a mechanism for monitoring businesses with what Mr Flannery calls "a very critical, analytical, dispassionate eye", the market itself is a competitor. GE used to amount to more than that.

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