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9B19M040

revitalizing general electric[[1]](#endnote-1)

Ken Mark wrote this case under the supervision of Professor W. Glenn Rowe solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On February 26, 2018, the new chief executive officer (CEO) of General Electric Company (GE), John L. Flannery, was taking steps to revitalize the conglomerate. After his many changes—cutting expenses across the board, reviewing GE’s many businesses, and trying to improve cash generation—his focus was on reforming the company’s board of directors. He announced that day that GE was nominating three experts to its revamped board of directors with experience in accounting, aviation, and industrial technology. Flannery had overhauled the board, taking it from 18 people to a proposed 12. Only three people from the previous board would be returning, and Flannery would be the only insider.[[2]](#endnote-2)

Yet, GE’s stock continued to fall, dropping briefly below US$14.00,[[3]](#endnote-3) the lowest level since the Great Financial Crisis of 2009. GE was the Dow Jones Industrial Average’s worst performing stock of 2017, falling 45 per cent.[[4]](#endnote-4) The bad news seemed to keep coming: after years of earnings disappointments, mistimed acquisitions, and charges against earnings for past mistakes, GE’s latest stock price hit came when it was revealed that the United States Department of Justice was taking action against GE for alleged subprime mortgage violations.[[5]](#endnote-5)

As chairman of the board, Flannery was sending a signal that a new era of governance was emerging. Resetting the board was also an admission that GE’s governance had failed the firm: it had been ineffective in ensuring that the company’s best interests were being taken into account. Was restructuring the board the right thing to do? Would it reassure current investors and attract new investors?

Flannery had joined GE in 1987 and spent his first two decades at GE Capital, working in the United States, Latin America, and Asia. At GE Capital, Flannery doubled earnings in its Japanese subsidiary and increased earnings by 50 per cent in Korea and 25 per cent in Australia. He was appointed head of GE India, a country unit, in 2009 and was promoted to global head of Business Development in 2013. As head of Business Development, he oversaw $26-billion worth of acquisitions. He was named president and CEO of GE Healthcare in October 2014 and repositioned the unit to focus on core imaging, digital platforms, and solutions. His efforts boosted revenues by 5 per cent and margins by 100 basis points in 2016.[[6]](#endnote-6) Flannery, speaking to analysts when he was appointed as GE’s new CEO, reassured them he had GE’s investors’ best interests in mind:

I have a relentless focus on three things: customers, team, and execution/accountability. When we bring those three things together we will create “our GE.” Investors want us to win—they know that GE has world class businesses and technology with unprecedented global reach and scale. They understand the importance of GE in the world but they think we are underperforming. They are expecting better execution on cash, margins and there is a focus on taking cost out. They understand how massive the portfolio transformation has been since 2001, but now we need an intense focus on running the company well. They also expect more accountability internally and externally and asked that we find a way to simplify our metrics. I heard them loud and clear.[[7]](#endnote-7)

“Many people have lost faith in us. I have not,” Flannery wrote. “I want to be very clear on one thing: While I am not proud of our performance, I am incredibly proud of this company.”[[8]](#endnote-8)

The responsibility for GE’s failures ultimately rested with its board of directors. Prior to Flannery’s changes, GE had 18 people on its board, many of whom were long-standing directors. *The* *Economist* called it “an unwieldy collection of 18 grandees who failed to ask hard questions even as GE’s performance deteriorated.”[[9]](#endnote-9) Flannery was proposing to cut the board to 12 members, with only nine of the 18 continuing to serve on the board. One of the 12 would continue to be Ed Garden, chief investment officer of Trian Partners (Trian), an activist fund that had invested in GE shares. GE’s 45-year share performance, compared against the Standard & Poor’s (S&P) 500, can be seen in Exhibit 1. GE’s share performance under three very different CEOs—Reginald Jones, Jack Welch, and Jeffrey Immelt—can be seen in Exhibit 2.

**General Electric**

GE was founded in 1892, and its first products were light bulbs, motors, elevators, and toasters. Growing organically and through acquisitions, GE’s revenues reached $27 billion in 1981. GE was widely known and admired as a leader in management practices, and its leaders were recruited to run and to turn around industrial firms. When Reginald Jones was promoted to CEO in 1972, he would be only the seventh man to lead GE since Thomas Edison. Jones inherited a diversified conglomerate, and he shifted its focus to international markets and put it on improving relationships between business and government. In surveys of business leaders in 1979 and 1980, U.S. business leaders named Jones the most influential person in American business. Under his leadership, GE’s sales jumped to $22 billion in 1981 from $10 billion, and earnings rose to $1.4 billion from $572 million.[[10]](#endnote-10) However, during his tenure GE’s share price did not “beat the market” as measured by the S&P 500 index (see Exhibit 2).

In 1981, John F. Welch, Jr. (Jack Welch) took over as CEO. According to his biography,

[Welch] had little time for bureaucracy and archaic business ways. Managers were given free reign as long as they followed the GE ethic of constant change and striving to do better. He ran GE like a small dynamic business able to change as opportunities arose or when a business became unprofitable. GE saw great growth and expansion under Mr. Welch’s leadership. Through streamlining operations, acquiring new businesses, and ensuring that each business under the GE umbrella was one of the best in its field, the company was able to expand dramatically from 1981 to 2001, achieving sales of $125.9 billion in Welch’s final fiscal year.[[11]](#endnote-11)

In addition, under Welch’s tenure, GE’s share price consistently beat the market (see Exhibit 2).

Welch implemented programs that would be copied at other organizations, including “Number One or Number Two,” a strategy where GE businesses aimed to be the top two in their market (or be sold off, closed, or fixed); Six Sigma, a process improvement tool; and the Vitality Curve, which was a way to rank employees. Welch was known by the moniker “Neutron Jack” for his work in de-layering the organization. The number of employees at GE had fallen from a high of 404,000 in 1980 to 292,000 by 1989.[[12]](#endnote-12)

Welch retired from GE in September 2001 with plaudits such as “Manager of the Century” (*Fortune* magazine), and one of the three most admired business leaders (*Financial Times*).[[13]](#endnote-13)

Jeffrey R. Immelt joined GE days before the September 11, 2001 terror attacks on New York City. Immelt had joined GE in 1982 and held several global leadership positions in GE’s Plastics, Appliances, and Healthcare businesses.[[14]](#endnote-14) In his 16 years as GE’s CEO, Immelt doubled industrial earnings and oversaw dividend payouts totalling $143 billion, which was more than in the cumulative history of the firm before he had become CEO. Like Welch, Immelt re-shaped GE, selling more than $260 billion in GE Capital assets. He also sold off non-core assets such as GE Appliances, NBC Universal, and GE Plastics—the business that Welch had built from nothing and that was worth more than $11 billion when it was sold.[[15]](#endnote-15) Immelt’s aim was to bring GE into the Internet age, predicting that GE would become “a top 10 software company” by 2020.[[16]](#endnote-16) During his tenure, GE’s share price consistently underperformed the S&P 500 (see Exhibit 2).

GE and Regulatory Compliance

GE had, as part of its accounting policies, internal controls and procedures that were set up to ensure record keeping was accurate. Its internal audit staff conducted thousands of financial, compliance and process improvement audits each year. The GE Board’s Audit Committee reviewed and evaluated the results. Members of the Audit Committee—all of whom were independent directors—oversaw GE’s internal controls over financial reporting. To ensure that complaints were not buried, GE had designated ombudspersons throughout the organization to allow employees to report any integrity or compliance issues.[[17]](#endnote-17)

The GE internal audit function included more than 470 auditors, including members of the Corporate Audit Staff department, and conducted various audits each year—in every GE geographic area and at every GE business. The Audit Committee oversaw the scope and evaluated the overall results of these audits, and members of the committee met jointly with GE Capital’s board of directors and regularly attended internal audit and Controllership Council meetings. GE’s internal audit function reported directly to the Audit Committee of the board. In addition, partners from KPMG LLP, GE’s independent auditor, worked with their colleagues and GE’s internal auditors to conduct the necessary statutory and auditing reviews. In trying to adhere to complex regulations—such as the *Sarbanes–Oxley Act of 2002*—until 2016, GE paid firms such as KPMG LLP an extra $8 million–$10 million a year for its tax professionals to work on GE’s tax returns. This was a practice frowned upon by the U.S. Securities and Exchange Commission.[[18]](#endnote-18)

GE finance leaders, including the chief financial officer (CFO); the controller; and the vice-president, Corporate Audit Staff, regularly reviewed the status of controllership metrics (including account reconciliations, the outcomes of internal audit reviews, and Sarbanes–Oxley 404 certification) with the Audit Committee.

Senior management of the company and of each of the businesses conducted regular reviews of the financial operations at each business. The CEOs and CFOs of GE businesses were required to sign representation letters attesting to the financial results. Executives with detailed knowledge of GE businesses—and the related needs of investors—served on disclosure committees at both the corporate and business levels. These disclosure committees discussed the completeness of financial and non-financial disclosures and reported their findings to the CEO, the CFO, and the Audit Committee.

GE worked to shed its designation as a systematically important entity in the financial system. By 2016, it became the first financial institution to have done so, largely by shrinking GE Capital. On June 26, 2016, it was announced that:

The U.S. Financial Stability Oversight Council (FSOC) removed the GE finance unit’s designation as a Systemically Important Financial Institution (SIFI) yesterday. The decision means the Federal Reserve will no longer regulate GE Capital as a nonbank SIFI. The FSOC was created in 2010 as part of the Dodd-Frank financial reform act [*The Dodd–Frank Wall Street Reform and Consumer Protection Act*]. It designated GE Capital as a nonbank SIFI in 2013. In addition to being under Federal Reserve oversight, nonbank SIFIs are subject to capital adequacy and other regulatory requirements in order to ensure their safety and soundness. The FSOC agreed to remove the SIFI designation after GE Capital had executed “significant divestitures, transformed its funding model, and implemented a corporate reorganization.” GE Capital applied to the FSOC for removal of the designation in March 2016, after the company spent a year transforming itself into a smaller financial services provider by shedding over half of its assets.[[19]](#endnote-19)

Trian Partners

Despite Immelt’s efforts to transform GE, its stock price never recovered to the levels it had been before he became CEO. Sensing an opportunity, activist investors looked to shake up the firm. In October 2015, Trian, an activist fund, invested $2.5 billion in GE. Ed Garden, Trian’s chief investment officer and a founding partner, stated, “Trian believes GE has significant long-term potential and that its implied target value per share, including dividends, could be $40 to $45 by the end of 2017 based on our view that GE can deliver EPS [earnings per share] of at least $2.20 in 2018.”[[20]](#endnote-20) Trian advocated for cost reductions and increased debt to raise earnings. Eventually, bowing to pressure, Immelt stepped down as CEO on June 12, 2017,[[21]](#endnote-21) and as chairman of the board and a member of the board on Monday October 2, 2017, about two months earlier than expected.[[22]](#endnote-22)

On October 9, 2017, Trian, with only a 0.82-per cent stake in GE, won a seat on GE’s board of directors. Garden was named to the board.[[23]](#endnote-23)

Flannery’s Review

In November 2017, 85 per cent of GE’s earnings came from businesses where GE had the top position in each business’s industry. In an earnings call with analysts, Flannery reviewed each of GE’s major businesses.[[24]](#endnote-24)

For GE Power, Flannery noted that the business was facing competitive pressures and that GE’s troubles were exacerbated by the fact that execution had been poor. The new leader, Russell Stokes, had been with GE for 20 years. He had experience in the energy market and had served in positions in Aviation, Transportation. Flannery’s focus for GE Power was to generate operating cash flow, reduce costs, and reduce its factory footprint.[[25]](#endnote-25)

For Aviation, led by David Joyce, Flannery noted that the business was “an incredible asset.” Aviation continued to deliver results for GE, and Flannery considered that no significant changes were needed. He cautioned that Joyce should not get “too comfortable” with his record of success in the business. Flannery was monitoring Aviation’s launch of its new engine, the business’s reductions in working capital, and its capital expenditures. He was also looking for growth prospects from GE Additive’s business (3D printing technology).[[26]](#endnote-26)

Turning to Healthcare, the business from which Flannery had just been promoted, he focused on the opportunity to grow in Life Sciences, and on digital disruption in health care in general. He praised Healthcare, now led by Kieran Murphy, as a team that was “running this business extremely well.” He also talked about the focus on emerging markets and cell therapy.[[27]](#endnote-27)

For Renewables, run by Jerome Pecresse, Flannery pointed to strong growth initiatives and the disruption in the space by competitors. Renewables had a strong franchise in onshore wind power and storage. Flannery noted that Renewables would be looking at improving the margins generated by the business. To do this, Pecresse would have to focus on Renewables’ cost structure.[[28]](#endnote-28)

Next, Flannery turned to GE’s 62.5-per cent stake in Baker Hughes Incorporated (Baker Hughes), an industrial services and oil field services firm, run by Lorenzo Simonelli. The entity, which was publicly traded, had been created when GE merged its oil and gas businesses with Baker Hughes’ entities. Flannery was looking for Simonelli to generate synergies from the merger—cost reductions from its operations—and to create value by focusing on adding digital services to Baker Hughes’ lineup. Flannery estimated that it would take up to three years to see results from the restructuring of Baker Hughes.[[29]](#endnote-29)

Last, Flannery discussed GE’s Transportation business, led by Rafael Santana. He noted that GE had a strong transportation business that had good relationships with its customers. The focus for Transportation was on all three of these initiatives: to grow beyond the United States, generate higher operating cash flow, and reduce the capital expenditures needed to run the business.[[30]](#endnote-30)

**Dividends and Earnings Estimates**

Flannery recognized that GE’s financial strength was at risk. On November 13, 2017, Flannery announced that GE’s dividend would be cut in half and there would be a restructuring of GE that would see layoffs and divestments representing $20 billion of GE’s businesses. Flannery also slashed the firm’s earnings estimates and attempted to reset expectations with investors, saying, “The GE of the future is going to be a more focused industrial company. It will leverage a lot of game-changing capabilities.” GE would now focus on three industries: health care, aviation, and energy. Flannery intended to make GE “simpler and easier to operate,” explaining, “Complexity has hurt us.”[[31]](#endnote-31)

On the same day, GE announced estimates of earnings per share for 2018—a range of $1.00 to $1.07—that were about 20 per cent lower than analysts’ estimates. Flannery was signalling that the changes would take time. In fact, he stated that the turnaround could stretch past 2019. The estimates meant that GE, at about $18 a share, was trading at a forward price-to-earnings multiple of about 18 times. Before the dividend cut, Flannery noted that GE had been “paying a dividend in excess of our free cash flow for a number of years now.”[[32]](#endnote-32)

**Flannery’s Turnaround Strategy**

In the November 13, 2017 announcement, Flannery also unveiled his strategy to investors and analysts, and focused on four key initiatives:

1. Strong franchises—improvements to the businesses in terms of how they operated, including cash flows, costs, people, teams, and execution.
2. Fixing the Power business, with 2018 being a reset year for Power.
3. Capital allocation—given that the dividend was being reduced, the new focus would be on total shareholder return, a mix of organic investment, share buybacks, and mergers and acquisitions.
4. Making GE simpler—Flannery explained, “Complexity hurts us. Complexity has hurt us. So the context of talking portfolio is around a simpler and more focused GE. We’re focused on strong end markets and areas where we have competitive advantages, areas where there is opportunity for digital disruption, areas where we can earn premium returns.”

Flannery’s renewal of GE’s corporate centre underlined his view that the corporate centre supported the businesses, and the businesses ran their operations. He stated:

My job, our job at the center of the company, really is to allocate the financial resources, the financial capital of the company, and the human resources, the human capital of the company, to the highest and best use. That’s fundamentally what’s going to characterize good performance for us from a central perspective. And this is an area where the company needs to improve. In the last several years, we’ve not generated the rates of return that we would like to. As I think about this, I think on two, I think, basic principles before we get into the rest of this. One is this happens every single day inside every one of our businesses. We have to be cognizant of that. We tend to talk about dividend policy and share buyback and M&A [mergers and acquisitions]. Those are clearly critically important things. But the reality is, most of the capital of the company, most of the investment decisions in the company, are happening every single day inside of the businesses. What new products do I launch? Should I build a plant? Should I hire salespeople? Should I build inventory? These are capital decisions. Every single dollar that we’re spending and investing is a capital allocation decision. So that’s one. Allot the capital, and I expect the businesses to be intensely analytical about it, which is point number two. This is a deeply rigorous, quantitative, market-backed exercise. That’s what I expect of the teams. I expect rigorous debate. I expect rigorous tracking of how things are going. I expect a lot of pushback. Capital allocation is a contact sport, would be my second point there.[[33]](#endnote-33)

He described the challenges vertically and horizontally:

* Vertically—Flannery aimed to go through each business in detail by visiting them; meeting the teams; and looking at strategy, finance, growth, and cost-cutting opportunities.
* Horizontally—Flannery stated, “We’ve also looked at the company horizontally, the things that we do in the center of the company that really the whole company leverages. So things like corporate research, things like our global growth organization. Are we spending the right amounts of money there? Which businesses actually leverage those?”[[34]](#endnote-34)

He put the changes into two categories:

* Hardware—what businesses to be in, how to allocate capital, and how to forecast returns.
* Software—changes at the board, senior leadership, changes in culture, and the compensation system.[[35]](#endnote-35)

As part of the changes to the board of directors from 18 members to 12, Flannery announced the creation of a new Finance and Capital Allocation Committee. The committee’s first task would be to review GE’s options for Baker Hughes.

Flannery outlined changes to how senior executives would be compensated:

Compensation, obviously, metrics drive behavior. Compensation rewards behavior or not. We’re right in the process now of [changing] compensation, especially for the senior executives of the company. Much more equity is the biggest point. Today, for its senior executives in the company, equity would be probably about 20 per cent of their compensation. It’s going to be 50 per cent of their compensation. My compensation, 100 per cent equity compensation, PSUs [performance share units], equity granted over [a] three-year time period, simple set of metrics. So I think if you take this in totality, a movement away from cash, a movement to equity, a movement away from complexity to simple metrics. And I think it’s an environment that’s just going to be much more aligned and rewarding of our team for and with shareholders.[[36]](#endnote-36)

**Investors and Market Reaction to GE’s Changes**

Less than two months after GE had laid out its change management plan, its stock price continued to fall. Investors wondered if there was more bad news to come. GE’s stock continued to fall after its $6.2-billion charge in January 2018 and announcement of a $15-billion commitment to insurance reserves.[[37]](#endnote-37)

A week before GE’s latest bad news disclosure in January 2018, Warren Buffett, in an interview on CNBC on January 10, 2018, responded to a question of whether there was a point at which GE’s stock, trading that day at $18.61—down from a recent high of $31.60 on December 1, 2016—was attractive to him. Buffett responded:

Well, there has to be. I mean there always is, for any company, and different people will have different views on what that price would be. If you came to me and said ‘we’ll sell you the whole General Electric Company at X’ and X was the right number, we’d like to buy it. And if we buy little pieces in the market that’s the way we think about it.[[38]](#endnote-38)

Tellingly, Buffett’s firm, Berkshire Hathaway Inc. (Berkshire), had cashed out of its entire stock holdings in GE in the second quarter of 2017 for a price between $27 and $30.[[39]](#endnote-39) As of January 2018, Berkshire did not hold any GE stock. However, it did continue to hold shares in Synchrony Financial, a provider of private-label credit cards that GE had owned for 80 years and had spun off on July 31, 2014.[[40]](#endnote-40) Investors in Synchrony Financial would have earned a return of 71.5 per cent had they held it from its initial public offering to January 15, 2018. During the same period, GE stock fell by 26.9 per cent.[[41]](#endnote-41)

In considering the reforms he would be making to GE’s governance structure, Flannery focused on GE’s board of directors (see Exhibit 3).

**GE’s Board of Directors**

From GE’s website came the following statement:

The primary role of GE’s Board of Directors is to oversee how management serves the interests of shareowners and other stakeholders. To do this, GE’s directors have adopted corporate governance principles aimed at ensuring that the Board is independent and fully informed on the key strategic and risk issues GE faces. GE has met its goal to have two-thirds of its Board be independent under a strict definition of independence. Today, 16 of the Board’s 17 directors are independent. Each independent director is expected to visit at least two GE businesses without the involvement of corporate management.[[42]](#endnote-42)

GE’s board met 17 times in a year, and of these, four were meetings of the independent directors of the board. Members reviewed three key areas associated with the running of the firm: strategy, risk management, and leadership development. Board members received regular briefings on topical issues such as where capital was being allocated, how risk in the firm was being managed, and how the company’s business development efforts were doing. A key briefing in 2016 was GE’s combination of its oil assets with those of Baker Hughes, its investments in new categories such as additive manufacturing, and the company’s effort to build up its digital strategy. Other key company initiatives that were discussed with the board included GE’s purchase of France’s Alstom, a power generation conglomerate; cyber-security threats; and how GE was ridding itself of the various assets associated with GE Capital. In general, the board also looked at granular efforts to improve shareholder returns, including how the company’s complex structure was being simplified; how it was looking to improve margins in its various businesses; how it was optimizing its working capital so that its cash conversion cycle was shortened; and how it was managing its human capital, including leadership development. The board heard briefings on global market trends and how these could have an impact on GE’s businesses.[[43]](#endnote-43)

Each year, the board and each of its committees conducted a “thorough self-evaluation” in order to find ways to improve the way they operated. To gain insights on how the businesses worked, GE board members were expected to make, each year, two visits to GE businesses. These visits were not accompanied by management.[[44]](#endnote-44)

One of Flannery’s key decisions when he became CEO was to reshape the board of directors. He aimed to reduce the number of directors from 18 to 12 and to remove many directors who were long-term associates of Immelt’s. In addition, downsizing the board would bring GE’s board closer to the average number of directors of 10.9 for U.S. companies with a market capitalization of at least $10 billion.[[45]](#endnote-45)

As part of the revamp of the board, on November 20, 2017, GE announced that, of the 12 board members standing for election, only four directors would be returning. One was Flannery, newly-elected in 2017, and the other three were independent directors: John Brennan, Garden (of Trian), and Rochelle Lazarus. The other eight would be new members. In addition, directors would now have a 15-year term limit.[[46]](#endnote-46)

Stock market commentator Cramer summed up what many thought of the performance of GE’s outgoing board of directors:

I want to put them up there on that Wall of Shame for not holding management accountable for its sins. If we don’t try to understand how things went so wrong at GE, if we don’t unearth all of the accounting issues and the misinformation, or, conceivably, outright dishonesty that was presented to us, how the heck can we trust this company to get anything right going forward? At the very least, the board owes us an explanation. After all, how can we tell that Flannery’s going to fix everything when we don’t even know what needs to be fixed?[[47]](#endnote-47)

**GE’s Nominating and Corporate Governance Committee**

GE had processes, at the board level, to assess who was on the board and the effectiveness of the board in creating and implementing its corporate governance principles and practices. It even had a process to identify potential board members:

The Governance and Public Affairs Committee of the board of directors of General Electric Company shall consist of a minimum of four directors. These should include the chairs of the Audit and the Management Development and Compensation committees. Members of the committee shall be appointed and may be removed by the board of directors. All members of the committee shall be independent directors, and shall satisfy GE’s independence guidelines for members of the Governance and Public Affairs Committee. The purpose of the committee shall be to assist the board in identifying qualified individuals to become board members, in determining the composition of the board of directors and its committees, in monitoring a process to assess board effectiveness, in developing and implementing the Company’s corporate governance principles and practices, in overseeing risks related to the Company’s governance structure and processes and risks arising from related party transactions, and in overseeing the Company’s positions on corporate social responsibilities and public issues of significance which affect investors and other key stakeholders.[[48]](#endnote-48)

**Flannery’s Strategic Challenge**

Looking ahead, Flannery would need to consider what to do about the poor quality of earnings from GE and how to fix major businesses such as Power and Baker Hughes. He had announced changes to GE’s compensation structure (see Exhibit 4), and would have to think about how it would reshape GE’s culture (see Exhibit 5).

Pundits could argue that Flannery might still be overly optimistic about GE’s prospects. On August 11, 2017, Flannery, to indicate his commitment to GE, purchased $2.7 million in stock at an average price of $25.56. On February 26, 2018, with GE stock under $14, Flannery’s investment had lost about 45 per cent of its value.[[49]](#endnote-49)

**Exhibit 1: General Electric Stock Price (dividends reinvested) versus The S&P 500 Total Return Index, 1973–2018**

Jeff Immelt

Jack Welch

Reginald Jones

Note: S&P = Standard’s & Poor; Dividends reinvested and indexed to Feb 1973 = 100

Source: Created by the case authors using data from Bloomberg; accessed March 25, 2018.

**Exhibit 2: General Electric Stock Price (dividends reinvested) versus The S&P 500 Total Return Index Under Three CEOs**

**Exhibit 2 (Continued)**

Note: S&P = Standard’s & Poor; CEOs = chief executive officers

Source: Created by the case authors using data from Bloomberg; accessed March 25, 2018.

**Exhibit 3: General Electric Board of Directors at the end of 2016**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Name | Tenure | | Age | Other Public Boards | Industry | | Current CEO? | |
| Andrea Jung | | 1998 | 58 | 2 | Consumer | N | |
| Edward Garden | | 2017 | 56 | 2 | Finance | N | |
| Francisco D'Souza | | 2013 | 48 | 1 | Tech | Y | |
| Geoffrey Beattie | | 2009 | 56 | 3 | Media | N | |
| James Mulva | | 2008 | 70 | 2 | Oil/Gas | N | |
| James Rohr | | 2013 | 68 | 3 | Finance | N | |
| James Tisch | | 2010 | 64 | 3 | Conglomerate | Y | |
| John Brennan | | 2012 | 62 | 2 | Finance | N | |
| John Flannery | | 2017 | 55 | 0 | Healthcare/Finance | Y | |
| Lowell McAdam | | 2016 | 62 | 1 | Telecom | Y | |
| Marijn Dekkers | | 2012 | 59 | 1 | Consumer | Y | |
| Mary Shapiro | | 2013 | 61 | 2 | Government | N | |
| Peter Henry | | 2016 | 47 | 1 | Education | N | |
| Risa Lavizzo-Mourey | | 2017 | 62 | 1 | Healthcare/Education | N | |
| Rochelle Lazarus | | 2000 | 69 | 2 | Advertising | N | |
| Sebastien Bazin | | 2016 | 55 | 2 | Hotel | Y | |
| Steven Mollenkopf | | 2016 | 48 | 1 | Semiconductors | Y | |
| Susan Hockfield | | 2006 | 65 | 0 | Education | N | |

Note: CEO = chief executive officer

Source: Created by the case authors using data from General Electric, Leading a Digital Industrial Era: 2016 Annual Report, 28, accessed March 25, 2016, www.annualreports.com/HostedData/AnnualReportArchive/g/NYSE\_GE\_2016.pdf.

**Exhibit 4: General Electric—Compensation Changes**

**Current Program**

Annual Bonuses

* 75% financial/25% strategic
* Four–five metrics at company & business levels
* Company performance funds pool
* 100% cash payout

Three-year, Long-term Performance Award

* Five company metrics
* Three-year, end-to-end program
* 100% cash payout

Equity

* CEO combination of performance share units (PSUs) and options
* Direct reports combination of PSUs, restricted stock units (RSUs), and options
* Option/RSU choice for other leaders

**New Plan**

* Higher equity mix targeted for top 5,000 employees
* Annual equity grant
* RSUs/options vested over three years
* PSUs based on three-year performance
* 100% of CEO equity issued in performance share units
* Annual bonus program tied to segment performance & simplified to two–three metrics
* Eliminate three-year cash long-term performance award
* Conform other benefits to market norms

Source: Created by the case authors using data from John Flannery, “GE Investor Update,” General Electric Company, 22, November 13, 2017, accessed February 23, 2018, www.ge.com/investor-relations/sites/default/files/GE%20Investor%20Up

date\_Presentation\_11132017.pdf.

**Exhibit 5: General Elecric—Cultural Changes**

**Accountability**

* Improve say/do ratio
* Tie compensation and investments to outcomes
* Hold leaders accountable

**Transparency**

* Instill a culture of candor, focus, and challenging each other
* Simplify reporting metrics

**Rigour**

* Employ robust business planning, target-setting, and review processes
* Implement a centralized capital allocation process

**Consistency**

* Align compensation with long-term goals
* • Manage the long-term health and performance of the business

Source: John Flannery, “GE Investor Update,” General Electric Company, November 13, 2017, accessed February 23, 2018, www.ge.com/investor-relations/sites/default/files/GE%20Investor%20Update\_Presentation\_11132017.pdf.

Endnotes

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