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G.E. Magic Can Fade, After G.E.

By [CLAUDIA H. DEUTSCH](#)

When boards of directors go shopping for a new chief executive, their first stop is often [General Electric](#).

After all, its disciplined approach to management, the “G.E. Way,” has been chronicled in a shelf’s worth of books, including “Winning,” by its former chief executive, [John F. Welch Jr.](#), who gets much of the credit for his system of building a deep bench of talent. That system included rotating executives through many jobs, teaching them productivity and quality-control tools like Six Sigma, and training them at the company’s vaunted management school.

G.E. executives were in such demand that just one week after Mr. Welch tapped [Jeffrey R. Immelt](#) as his successor in late 2000, the two runners-up were immediately lured away. [Home Depot](#) recruited Robert L. Nardelli, and [3M](#) took W. James McNerney Jr.

But the ouster of Mr. Nardelli from Home Depot raises anew the question of whether G.E. executives are so bankable when they switch to new companies. The answer, many management experts say, is not necessarily.

Though Mr. McNerney has succeeded at both 3M and then at [Boeing](#), Mr. Nardelli joins Lawrence R. Johnston, another high-flying G.E. executive who left in 2001 for a troubled tenure at [Albertson’s](#), among the alumni who did not live up to expectations.

“G.E. is still the best training ground on the planet, but that still doesn’t mean that everyone is going to succeed,” said Noel M. Tichy, a professor at the [University of Michigan](#) Business School who has written extensively about G.E.

If there is any pattern, experts say, it is that G.E. executives succeed when they switch to companies that are, well, a lot like G.E. — big industrial firms that are dominant in their fields, or that need an infusion of manufacturing and research discipline, or that must grow by acquisition.

By contrast, they tend to have more trouble in companies, retailers like Home Depot, that require more fingertip feel to manage.

“G.E. people are good at getting structure, system and strategy right, but they don’t always understand the soft issues like culture,” said Boris Groysberg, an assistant

professor at the [Harvard](#) Business School who recently studied 20 star G.E. managers who went on to run other companies.



ALUMNI NEWS & NOTES



Robert L. Nardelli

MR. NARDELLI STARTED HIS CAREER at G.E. in 1971, left in 1988 to join the Case Corporation and came back to G.E. in 1991. After missing out on the top job at G.E., he jumped to Home Depot in late 2000. Competition from Lowe's and some strategic missteps weighed on Home Depot shares, but it was his pay package that appears to have led to his ouster. His total compensation, including his exit package: \$274 million.

WHERE ARE THEY NOW? G.E. executives other than John F. Welch Jr. have made names for themselves — but not always for their successes.



W. James McNerney Jr.

AN 18-YEAR G.E. VETERAN, Mr. McNerney was one of the candidates to succeed Mr. Welch. Mr. McNerney lost, but immediately jumped to the 3M Corporation, where he raised productivity and its stock price. He moved to Boeing in 2005, and helped lift its share price as well. His total compensation since he left G.E.: \$104.8 million.



Gary C. Wendt

AFTER BUILDING GE CAPITAL SERVICES into a powerhouse, Mr. Wendt was tapped in June 2000 to run Conseco Inc., a troubled insurance and financial services company. Two months after he stepped down in October 2002, Conseco filed for bankruptcy protection. Mr. Wendt's total pay at Conseco: \$79.2 million.



Jeffrey R. Immelt

MR. IMMELT STARTED AT THE COMPANY in 1982. Since taking over as chief executive in 2001, he has sold off lackluster businesses and prodded managers to focus on "organic" growth. After being mired in the low to mid \$30s for two years, G.E. shares started rising again in December. His total compensation since 2001: \$65.5 million.

Illustration by The New York Times; sources of compensation data: Equilar; Brian Foley & Company

Many management experts say that the very command and control management style that has characterized many successful G.E. executives may have led to Mr. Nardelli's downfall. They note that he shifted Home Depot's emphasis to the commercial market, installed all sorts of productivity tools and otherwise "G.E.-ified" the company.

But, they say, he did not recognize that sales associates react differently than white-collar managers to change, and thus need different incentives to embrace it. He closed stores and moved people around, which meant that many sales staff found themselves with new bosses.

He insisted that shelves be stocked during off hours, and he instituted formal inventory control and performance evaluation systems.

“He was foisting all this change on people who aren’t necessarily looking to rise to higher levels in the organization, and so didn’t see any upside for themselves in any of it,” said Batia M. Wiesenfeld, associate professor of management at the Leonard N. Stern School of Business at [New York University](#).

The style did not necessarily work for ambitious managers either, said Anthony J. Mayo, a lecturer at the Harvard Business School. “He brought a classic G.E. top-down, autocratic command and control approach and style, which just did not work out of the context of G.E.,” he said.

Mr. Mayo includes Mr. Welch, Stanley Gault, Lawrence Bossidy and several other former G.E. executives in his coming book, “In Their Time: The Greatest Business Leaders of the 20th Century.” But he said that his research turned up many ex-G.E. executives who ignored “context-based management,” his term for tailoring management approaches to specific situations.

The G.E. way was particularly out of place in a retail operation, said James E. Schrage, clinical professor of entrepreneurship and strategy at the [University of Chicago](#) Graduate School of Business. “Boards get overenthusiastic about the G.E. glow,” he said. “They forget that there’s a big divide between selling light bulbs and appliances to stores and running the stores that sell them to consumers.”

Mr. Nardelli is not the first G.E. alumnus who took on another company amid much fanfare, only to leave under a cloud. John B. Blystone left G.E. to run the [SPX Corporation](#) in 1995; at first, shareholders applauded his cost-cutting methods. But revenue stalled. Mr. Blystone resigned in 2004 “to spend more time with his family,” amid controversy over his sale of SPX shares before the release of lackluster quarterly results.

Shares of [Conseco](#) leaped in 2000 when [Gary C. Wendt](#), then the head of GE Capital, became its new chief. He was unable to turn the company around, and two years later he relinquished the chief executive slot; Conseco soon filed for bankruptcy protection.

Mr. Johnston left G.E. to run Albertson’s in 2001; he closed stores and cut jobs, but still could not compete with the [Wal-Mart](#) juggernaut. Albertson’s sales and stock plunged, and the company was eventually sold.

“G.E. people bring a great tool kit with them, but they really need the global learning centers, the diverse product portfolio, the access to capital, all of the resources of

G.E. to maximize its value,” said Nicholas P. Heymann, who follows G.E. for Prudential Securities.

There are many success stories too, of course. Mr. Bossidy, one of Mr. Welch’s hand-groomed executives, was considered a savior at Allied Signal (later [Honeywell](#)), as was Mr. Gault at Rubbermaid. Kirk Hachigian continues to get high marks at [Cooper Industries](#). John Trani ran into problems with Stanley Work’s unions toward the end of his tenure, but he nonetheless is credited with whipping the company’s costs and operations into shape before he retired in 2003.

And, of course, Mr. McNerney, who left G.E. to run 3M at the same time that Mr. Nardelli left for Home Depot, got 3M’s sales and stock price way up. He recently left to head Boeing, and most analysts expect him to do well there, too.

The success stories, experts say, have several things in common: The companies were manufacturers that needed to cut costs, pump up product innovation and grow by acquisition — all skills that are finely honed at G.E. In contrast, Albertson’s and Home Depot are retailers, an area that G.E. has not touched save for a brief and unrewarding stint owning Montgomery Ward.

SPX needed to expand businesses it already owned — something that was emphasized far less by Mr. Welch than it is by Mr. Immelt, G.E.’s current chief. And Consec was foundering — a company G.E. would never have bought, and probably would have sold.

“The errors come in when G.E. people feel they learned all the secrets at G.E.,” said Ms. Wiesenfeld of New York University. They become enamored of their own knowledge, she added, “and don’t feel they have to learn about the business they are going into.”

Mr. Immelt, G.E.’s current chief, has not been cheered by shareholders throughout much of his tenure. He took over from Mr. Welch in September 2001, just in time for the terrorist attack of Sept. 11 to wreak havoc with G.E. insurance, aircraft leasing and other businesses. And he also suffered through two years of share price stagnation, which ended just last month.

Shareholders did not clamor for his resignation, though. One reason, analysts say, was that Mr. Immelt seemed to understand the problems, and was installing innovation processes and product lines to fix them.

Another reason was that his total compensation package — \$8,534,829 in 2004 and \$3,400,769 million in 2005 — was well below the sums paid to other chief executives like Mr. Nardelli.