# Review Essay

Lights Out: Pride, Delusion, and the Fall of General Electric. *By Thomas Gryta and Ted Mann*. Boston: Houghton Mifflin Harcourt, 2020. 384 pp. Paperback, $28.00. ISBN: 978-0-358-25041-8.

The Man Who Broke Capitalism: How Jack Welch Gutted the Heartland and Crushed the Soul of Corporate America—and How to Undo His Legacy. *By David Gelles*. New York: Simon & Schuster, 2022. 272 pp. Hardcover, $28.00. ISBN: 978-1-982-17644-0.
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Reviewed by Richard S. Tedlow

General Electric and Jack Welch are dead. Now they belong to the ages, which means they are the property of historians.[1] What are we to make of them?

Journalism has been called the first draft of history, and under review here are two books by journalists: *Lights Out: Pride, Delusion, and the Fall of General Electric* by Thomas Gryta and Ted Mann and *The Man Who Broke Capitalism: How Jack Welch Gutted the Heartland and Crushed the Soul of Corporate America—and How to Undo His Legacy* by David Gelles.

It is worth noting, because it will contribute to our humility when evaluating contemporary CEOs and their companies, that as recently as the turn of the century it would have been hard to imagine that there would be an industry devoted to analyzing the collapse of General Electric and, with it, Jack Welch's reputation. Welch stepped down as CEO of GE in 2001, when it was the fifth-largest company in the United States by sales. Welch was hailed by *Fortune* magazine as the "manager of the century" in 1999 (Geoffrey Colvin, "The Ultimate Manager"). He had been selected as GE's CEO in 1981. Its market capitalization was less than $12 billion in September of that year. In 2000, after two decades under Welch, its market capitalization reached almost $600 billion. For a time, it was the most valuable company in

[1] "Now he belongs to the ages" is the phrase that then Secretary of War Edwin Stanton is said to have uttered at Lincoln's death.

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the world. Welch was endlessly celebrated by the business press, part of which GE owned, and by himself. *Sic transit gloria mundi.*

In 2018, after a slow-motion train wreck, GE appointed Larry Culp as the first CEO who had not grown up in the company. In 2021, Culp announced that he was splitting the company into three separate publicly traded firms. GE as the company you could depend on—as the perfect investment for widows and orphans—was finished. With its collapse, Welch's reputation vaporized as well. His approach to running a business is yesterday's news. When he stepped down from GE in 2001, he said that he should be judged by how the company was doing two decades after his retirement. The verdict is in.

What went wrong? These two books offer several answers to that question. One is Welch himself, the imperious, oppressive boss who turned the company over to Wall Street. Another is GE Capital, the engine of growth as well as the lever that enabled Welch to manipulate earnings, which collapsed along with the rest of the financial system in 2008. Yet another is the conglomerate structure, which had been tried and had failed numerous times in the past and was superannuated by the end of the twentieth century. Yet another is Welch's hand-picked successor, Jeff Immelt, who never really understood what his job was as GE's CEO.

These explanations are not mutually exclusive. For example, Welch chose Immelt, and Immelt's failure reflected on Welch. What do these two books tell us that might guide historians in their evaluation of the catastrophe that GE became?

GE was founded in 1892. Its parents were icons: Thomas Edison (who was soon pushed out) and the most important financier in American history, J. P. Morgan. The company had only seven CEOs prior to 1981, when Welch took the reins and turned the company upside down.

From the end of World War II to the start of Welch's tenure as CEO, GE was a conglomerate that grew with the GDP and never missed or lowered its dividend. "The Company was as trusted as a government bond, tied to a proud national inheritance of innovation," write Gryta and Mann. "Indeed the company was a sort of proxy for the American economy as a whole because in addition to hiring brilliant engineers and managers it employed hundreds of thousands of skilled tradesmen. . . . To many investors, GE was just the right amount of boring: dependable as a utility, unlikely to skyrocket in price, and predictable" (p. 13).

Reginald Jones, GE CEO from 1973 to 1981, was a much-praised executive during his tenure. As was customary, he spent his whole career at GE. Sales and profits more than doubled, while the price of the stock did little more than tread water. Only slightly pompous, Jones fit the image that the public had of a GE CEO, which makes his choice of Welch to succeed him more than a little surprising.

Welch was a man with his hair on fire. He hated bureaucracy, and GE gave him plenty to hate. When he took over, GE was considered a superbly well-managed company. But it was not, and he knew it. By choosing Welch, the *Wall Street Journal* observed, GE had chosen "to replace a legend [which Jones was] with a live wire" (John R. Emshwiller, "Reginald Jones Plans April 1 Retirement from GE," [22 Dec. 1980]).

There was no perceived crisis in the company at the time. No need to change when things appeared to be going perfectly well. However, Welch, to his credit, could see beyond the conventional wisdom. "We had 147 people in strategic planning," he later observed with a sense of wonderment. These people produced analyses in the form of books that were then graded. Welch correctly perceived this exercise as pointless make-work, "so we asked those planners to find employment elsewhere." He added, "We had thirteen businesses that were losing money, [and] two of them had been losing money for twenty years" (Jack Welch, interview by Rakesh Khurana, 12 April 2005, see URL at the end of this essay).

Nevertheless, Welch believed, "We had a great company. It was doing well. But the Japanese were beginning to eat our lunch, and we had to radically change." Reginald Jones knew what was going to happen, "and that's why he picked me" (2005 Welch interview). This could be seen as the pinnacle of Welch's career. He saw the future and acted on it. If that meant terminating employees by the thousands, he did so. "Neutron Jack," a nickname he did not like but that was quite appropriate, changed General Electric before outside forces made him do so. This was the birth of the legend of Jack Welch. When he stepped down as CEO two decades later, Immelt, his successor, presided over the end of that legend.

*Lights Out*, which documents the demise of the company, is a terrific read. Perfectly paced and a model of clarity, it has an element of suspense even though its readers know how the story ends.

Gryta and Mann start us off with a review of Welch's years as CEO. They correctly observe that his "greatest innovation" was the "embrace of finance." GE Capital, which "at its height" accounted for more than half the company's profits, was essentially an unregulated bank Welch could use to smooth earnings and consistently meet Wall Street's expectations (p. 18). Welch said that the sole purpose of any company was to satisfy customers. What he did not say but was quite true was that the customers he cared most about were investors. Satisfying them with the tool of GE Capital made everyone, not least Welch himself, richer than they ever thought they would be. At one point, Welch had a personal fortune of almost $1 billion.

Jeff Immelt was born in 1956; Welch, in 1935. Both men were insiders, having spent their careers at GE before becoming CEO. Welch was forty-five when he took over in 1981; Immelt was forty-five when it was his turn. Physically, the two men were quite different. Welch was five feet six inches tall; Immelt is six feet four. A football player at Dartmouth, Immelt was physically tough.

The biggest difference between the two men was their respective core competencies. Welch was a dealmaker. Gryta and Mann estimate that Welch "oversaw almost 1,000 acquisitions or about four deals a month over his two decades, with the value topping $130 billion" (p. 17). Immelt, by contrast, was the consummate salesman. He could work a room with a big smile on his face and make everyone feel special. Indeed, with his "jock-like salesman bravado," Immelt sold himself superbly, running what has been called "success theater" (pp. 30, 4).

The board of directors was puzzled by the selection of Immelt. Welch himself "couldn't quite explain why he chose as he did." In the end, according to Gryta and Mann, "he went with his gut" (p. 36). Why his gut guided him to Immelt is one of life's mysteries. As mentioned, Immelt's strength was in selling, not dealmaking. By the time he took GE's reins, dealmaking was the most important skill the CEO needed. Welch planned to climax his tenure with one last deal, the acquisition of Honeywell. "And then Welch did something unexpected. He failed to make the deal" (p. 38). Not an auspicious sign. Less auspicious signs were on the agenda.

"My second day as chairman," Immelt later observed, "a plane I lease, flying with engines I built, crashed into a building that I insure, and [the story] was covered by a network I own" (p. 46). But 9/11 was not Immelt's only problem. Indeed, it was not even his most serious one. Enron, for six straight years named the nation's "most innovative company" by *Fortune*, went bankrupt following a wave of accounting scandals in 2001 (Bethany McLean and Peter Elkind, *The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron* [2003], 239). With its collapse came the demise of Arthur Andersen, Enron's auditor and one of the nation's largest accounting firms. In 2002, the Sarbanes–Oxley bill became law, making it more difficult for GE, as Gryta and Mann put it, "to manipulate its reported profits" (p. 54). The "suddenness and the shock" of the discovery of the fraud that was Enron made investors "think more critically about all those smooth quarters" that Welch generated (p. 57). In March 2002, Bill Gross of PIMCO, the world's largest bond investor, posted a note that "smacked GE and its leaders, past and present, right between the eyes." He had sold $1 billion worth of GE bonds because "the corporation's honesty remains in doubt" (p. 58).

Immelt replied on CNBC that GE's accounting was accurate and, moreover, that its conglomerate structure made it immune to recession. This has always been the rationale for conglomerates. If one industry encounters trouble, others in the portfolio can step up. The unfortunate truth, however, was that there was only one unit of the company that kept coming through when things were tough. That was GE Capital.

GE Capital was a black box. Few people outside of it and not that many inside knew how it generated its profits. That black box aspect was accepted under Welch, but under Immelt, GE Capital became the target of some probing questions. These were the same kinds of questions asked about Enron before its immolation. Like it or not, Immelt became dependent on Capital to hit his earnings targets, the one goal that could not be sacrificed. One could make a long list of Immelt's problems. When he took over, he "felt like he could barely breathe" (p. 58).

His biggest problems were that Jeff Immelt was not Jack Welch and that times had changed. The number one customer—the investor—would accept from Welch in the 1990s what he or she questioned from Immelt the following decade. GE's stock price dropped notably under Immelt, who said, ungenerously and inaccurately, "Not only could anyone have run GE in the 1990s. His dog could have run GE. A German Shepherd could have run GE" (p. 127). Immelt's task, he said, was "really, really, really hard" (Gelles, p. 147).

If GE Capital faltered, Immelt and his company were in trouble. "In the end," write Gryta and Mann, "Capital was always a problem. It was utterly complex and filled with risk, and its tentacles reached everywhere in the company" (p. 95). The dangers of financial services were hardly a state secret, even within GE Capital itself. In some of its offices were framed articles about the fall of Westinghouse, GE's rival for decades, which collapsed in the 1990s because of, among other reasons, its overexposure to financial services.

A day of reckoning was bound to come, and so it did in 2008. GE Capital struggled, as did the rest of the financial services industry. It wasn't special, as the company claimed. When the chinks in its armor became clear, investors headed for the exits. In one day in March 2008, the stock lost almost $50 billion. From offstage came the critical voice of Welch: "You made a promise that you'd deliver this and you missed three weeks later. Jeff has a credibility issue. He's getting his ass kicked" (p. 109).

Gryta and Mann chronicle with as much clarity as is possible the remainder of Immelt's tenure. After the collapse of GE Capital, they observe, "in short, words didn't matter anymore" (p. 122). Words were

Immelt's stock in trade. Without their power, he was stuck with the reality that GE was saddled with an organizational structure that made the crafting of a successful strategy next to impossible. The stock plummeted from about thirty-eight dollars on his first day on the job to twelve dollars at the end of January 2009.

The most remarkable aspect of the Immelt years was that he lasted as long as he did. He stepped down in October of 2017. During his years at the helm, GE shares dropped 30 percent while the S&P 500 rose 134 percent. Gryta and Mann describe and analyze his failure with a deft touch. Their writing is compelling. This book is a page turner and deserves a wide readership.

The authors handle the last act—the sad story of Immelt's successor, John Flannery, whom one feels deserved a better fate than befell him in his fourteen months as CEO—swiftly and well. Flannery was followed by Larry Culp, who finally broke up the company.

This book leaves us with a number of questions. What killed GE? Was it Immelt's failed (but, for him, very lucrative) leadership? If Jack Welch had been twenty years younger and taken over as CEO in 2001, would the company have suffered the same fate? Was it that the conglomerate form had run its course, and no one could have saved it? Is the real question not why GE died but why it lasted as long as it did? Gryta and Mann give us plenty of information to debate these issues.

Jack Welch will be the subject of an important biography someday. The author of that book will not find David Gelles's *The Man Who Broke Capitalism* much help. This book has received a lot of publicity and apparently has sold well. Those sales are a tribute to the publicists at Simon & Schuster rather than to the book itself.

The most astute review of this book appeared in the *New York Times*, by Kurt Andersen. He writes that Gelles's "basic takes" on Welch are accurate but that he offers the reader nothing new. The book is "unsurprising, unoriginal, conventional wisdom conventionally expressed, passable in thousand-word pieces of journalism but not at book length" ("The Terminator," 26 June 2022, 16). The writing style is pedestrian. The book is repetitious when it isn't self-contradictory. The clumsy words the author invents recur repeatedly. "Welchism" appears more than forty times in a 231-page book. Are you interested in "financialization"? The word appears eighteen times.

Gelles's understanding of business history is, alas, lacking. He writes of a "Golden Age of Capitalism" (the phrase appears thirteen times) without providing a clear understanding of what this was or when it began and ended. The book's title is screamingly inappropriate. Jack Welch did not "break" capitalism, whatever that catchy but meaningless word might mean. Were Welch and "Welchism" cause or effect? The reader is left to wonder.

Welch, Gelles writes, "was the first celebrity CEO" (p. 7). He apparently is unfamiliar with Henry Ford. He must at least have heard of Steve Jobs.

A competent biography must inform the reader not only of the life of the protagonist but also of the times in which the individual lived. Yet Michael Milken is mentioned only in passing. Sam Walton, not at all. How can one discuss "financialization" without understanding Milken? How can one write about business leadership during this era with no mention of Walton (who died in 1992)?

Where, then, do we turn to begin to understand Welch? My suggestion is to look at one interview. In April 2005, Welch came to the Harvard Business School, where he was interviewed by Professor Rakesh Khurana. Khurana, now the Marvin Bower Professor of Leadership Development at the Harvard Business School as well as Dean of Harvard College, was an untenured associate professor at the time of the interview. In this interview, he tried to decode precisely Welch's view of the place of business in society.

Welch was not pleased with some of Khurana's questions. When watching the video recording of the interview, you can see him by turns being forceful, astute, and charming. You can also see the power of his use of words and his willingness to be a bully when he felt that it was called for. There was undoubtedly, for all his many faults, power in this man.

The place to begin is when Khurana, who believes passionately that businesses owe a lot to all their stakeholders, asks Welch, "What loyalty should [employees] expect from their employers?" (Welch, interview, 9:07). Welch answers immediately, "None. Absolutely none." What follows is quite a vigorous disagreement about the role business plays in society.

Reviewer Kurt Andersen observes that in Gelles's account, Welch "comes across as a stick figure. [He certainly does not in the interview just referred to.] For instance, exactly how does the son of a union railroad conductor who preferred chatting up machinists to sitting in a boardroom and deliberating with directors become such an enthusiastic generalissimo in the class war?" ("The Terminator"). It's a good question. You will find better clues watching the Khurana interview than reading the Gelles book.

Rakesh Khurana's interview of Jack Welch is available at the following URL: https://courseware.hbs.edu/mspublic/video/?v=0_hn80xry8.

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