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05Mar09 -ANALYSIS-In crisis, GE finds its deep bench not so magical
By James B. Kelleher

CHICAGO, March 5 (Reuters) - Crotonville, we have a problem.

The travails of General Electric Co <GE.N> -- its stock at 17-year lows to $6.66 this week amid growing concern over its massive finance arm [ID:nN05305265] -- have thrown a harsh light on the company's once-vaunted executive bench and the celebrated and expensive training program credited with creating those managers.

In recent weeks, GE executives have repeatedly tried -- without much success -- to allay concerns about the company's health, suggesting they have either lost their touch or squandered the credibility built up by former leaders like Jack Welch, who delivered reassuringly consistent growth quarter after quarter and helped establish the GE legend.

How bad has it become? On Thursday, GE's chief finance officer, Keith Sherin, sat down for an interview with CNBC, one of the company's television networks, and argued that worries about the finance unit were "overdone."

The result? The company's shares slipped again, closing at an ominous $6.66.

The less-than-stellar performance of some GE alums like Robert Nardelli, who has presided over two corporate meltdowns in a row at Home Depot Inc <HD.N> and Chrysler [CBS.UL] since leaving GE, has also hurt the company's reputation as a powerhouse of clear-headed, steady-handed, uber-managers.

"Management development is definitely what GE is known for," said Rosabeth Moss Kanter, a professor at the Harvard Business School. "But the bloom is off the idea that any one company has the magic formula and any one manager from that company automatically makes a great CEO."

Peter Cappelli, a professor at the Wharton School at the University of Pennsylvania, agrees.

"I think the idea that GE was grooming super managers is probably not true."

HANGING ON THE HUDSON

At the heart of GE's training program is the Leadership Center at Crotonville in Ossining, New York, which has attained near-mythical status in management circles since the 1950s.

Each year, GE sends thousands of employees to the center, about an hour's drive from headquarters in Fairfield, Connecticut, where they are drilled in GE's operating style.

To handle that volume of people, the leafy campus, which now bears Welch's name, maintains a 188-room hotel, recreation center and even a helipad.

The Crotonville Center was the place where ordinary GE employees were transformed into the uber-executives for which the diversified industrial company was famous. These were leaders who, it was believed, gave GE the deepest management bench in corporate America and provided the pool of talent that other top companies raided when they needed CEOs.

On its website, GE, which spends about $1 billion a year on training and education, says, "at GE, learning is a cultural force and Crotonville is its epicenter."

GE likes building its own leaders. Current CEO Jeff Immelt took over in 2001 after holding several global jobs since joining in 1982, including posts in its plastics, appliance and medical businesses.

Immelt succeeded Welch, who spent his entire career at GE after joining in 1960 as a chemical engineer. And Welch followed Reginald Jones, another GE lifer who started in 1939.

But as GE faces its worst crisis in decades, its managers seem suddenly bereft of good ideas, its deep bench seems less up to the task at hand and the mystique surrounding Crotonville has tarnished.

"I think their management development, all those classes at Crotonville, is certainly superb," says Kanter at Harvard.

But, she adds, Crotonville is not enough.

TIMES ARE TOUGH

To be sure, GE's spiral is in some ways just another flashpoint in the global financial crisis. Its massive finance arm, which accounted for more than half its profits in 2007 before coming under stress in 2008, is the big problem.

Unlike the in-house finance units at other manufacturers, like Caterpillar Inc <CAT.N> and Deere & Co <DE.N>, which stay pretty close to home, providing inventory financing for dealers or purchase financing for customers, GE dabbled in everything from subprime mortgages to private-label credit cards.

With the value of those assets now very much in doubt because of the credit crunch, the housing meltdown and rising unemployment, "the finance unit has turned into a big black box," says Brian Uzzi, a professor at Kellogg School of Management at Northwestern University.

"So people are asking questions they've never asked before, like, 'How is it that we had all these incredibly well-trained gurus ... who seemed to have been doing well in the past, suddenly find themselves in such a tremendous mess?"

At the same time, the adequacy of the conglomerate's public disclosures about GE Capital has been the subject of debate.

Companies -- especially big ones with varied lines of business -- and their investors frequently are at odds over how much disclosure is appropriate, said Joseph Carcello, co-founder and director of research at the University of Tennessee's Corporate Governance Center.

"People want more information usually than less, and analysts generally can never get too much information," he said. "My guess is that analysts and investors want more, and GE is not giving them everything that they want."

But experts like Wharton's Cappelli think GE's focus on grooming internal talent may be part of the problem, too.

"If you grow your own talent, the way GE does, the talent ends up looking and thinking like the talent that was already there," Cappelli says. "You don't end up with a particularly diverse way of thinking about the world."

A WARNING SIGN

Ironically, one of the first signs that GE executives might not be the corporate Midases of popular lore emerged several years ago when Gary Wendt, the executive who built GE's now-troubled finance arm into a powerhouse, left GE to run Conseco Inc, an insurance and financial-services company that stumbled when it began financing mobile-home purchases.

Two years later, Conseco filed for bankruptcy anyway and Wendt, who received a $45 million signing bonus for joining the company, stepped down as CEO.

The lesson, said Kanter at Harvard, was clear. "Guys trained at GE can't automatically walk into another company and use what they learned at GE -- even if they were great leaders at GE," she said.

"Jack Welch was brilliant. But the most brilliant thing he did was to know when to leave."

(Additional reporting by Martha Graybow in New York and Scott Malone in Boston; Editing by Patrick Fitzgibbons and Matthew Lewis)