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Metaphor for G.E.'s Ills: A Corporate Jet With No Passengers

General Electric's use of one plane to trail another has raised questions about excess, and lack of oversight, at a company whose share price continues to slide.

Common Sense

By JAMES B. STEWART NOV. 2, 2017

The bizarre case of General Electric's use of a second corporate jet to follow its former chief executive, Jeff Immelt, as he hopscotched around the globe seems such an outlandish waste of money that many reacted with disbelief after The Wall Street Journal reported it on Oct. 18.

"I literally felt sick to my stomach," Scott Davis, an analyst and founding partner of Melius Research who has covered G.E. for years, told me this week. "I immediately called the company and asked if this could possibly be true."

Mr. Davis said G.E. had told him that the issue had been "blown all out of proportion." Publicly, the company said that the two-plane arrangement had been used only on "limited occasions" and was halted by Mr. Immelt in 2014.

That response prompted The Journal to report this week that the second jet — known in aviation circles as a "chase plane" — had followed Mr. Immelt's aircraft as recently as March, when two G.E. jets flew to Anchorage after taking off from Boston within minutes of each other. The second plane stayed in Alaska for five days while

Mr. Immelt went on to South Korea and China. After he returned to Anchorage, the plane followed him back to Boston.

The Journal documented multiple additional instances of two jets being used after the practice had supposedly stopped.

Mr. Immelt told The Journal he wasn't aware of the practice and wouldn't have allowed it. When I inquired about it this week, he acknowledged, through a spokesman, that he first became aware that it was happening in 2014, after a whistle-blower complained about it and the board's audit committee ordered it stopped. He said he didn't know the practice had continued after that.

Mr. Immelt elaborated in a letter he sent this week to John J. Brennan, the chairman emeritus and senior adviser at Vanguard and currently G.E.'s lead director. A copy of the letter was made available to The New York Times.

"Given my responsibilities as C.E.O. of a 300,000-employee global company, I just did not have time to personally direct the day-to-day operations of the corporate air team," Mr. Immelt wrote. "I had every right to expect that it was professionally run. Other than to say 'Hello,' I never spoke to the leader of corporate air in 16 years."

He continued: "They decided to deploy a 'backup' plane when I traveled on complicated, multi-stop trips or when we were traveling to areas with security concerns. This practice was brought to my attention and stopped three years ago. Let me reiterate, when I was in China or Pakistan or Turkey or Angola, the administration of our planes was never something I thought about, talked about or considered in any way."

A G.E. spokeswoman told The Journal that the use of the chase plane had drawn "understandable" criticism but did not fairly reflect Mr. Immelt's "dedicated service" over 30 years. (In his letter, Mr. Immelt said he "worked 100-hour weeks with more than 60 percent of my time on the road.")

Mr. Davis of Melius Research sharply disagreed, saying Mr. Immelt "was the imperial C.E.O."

“Not even heads of state get that kind of treatment,” Mr. Davis said. “You hear about this and you have to wonder what else they were spending money on. You really have to question the financial oversight and controls and internal audit. You have to question the entire organization.”

Charles Elson, a professor and director of the John L. Weinberg Center for Corporate Governance at the University of Delaware, agreed. “This isn’t a minor issue,” he said. “This may be why G.E. is in such trouble these days. It’s representative of an old-style C.E.O. culture that hasn’t helped G.E.” Professor Elson added, “My students were discussing this in class today.”

That G.E. is in trouble is beyond question. The company’s shares have taken a beating as the impact of Mr. Immelt’s long tenure as C.E.O. has come into sharper focus since G.E. announced in June that he would depart as chief executive. Even with the stock market in record territory, G.E. shares have dropped more than 36 percent this year, earning the company the dubious distinction of having the worst-performing stock in the Dow Jones industrial average. This week G.E. shares were barely trading above $20.

The chase-plane affair, and the company’s handling of it, have hardly inspired investor confidence. G.E. “was a great American company, and now its reputation is tarnished and the brand is damaged,” Mr. Davis said.

It also hasn’t helped, Professor Elson said, that G.E.’s “explanations have only given rise to more questions,” starting with how much the practice cost shareholders.

Start with the ostensible reason for the second plane: to provide additional security and to have a spare in case of a breakdown, according to G.E. No one I spoke to in the field of corporate security said that made any sense, especially in the instance when the second plane stayed in Anchorage while Mr. Immelt traveled to Asia. There are plenty of planes there that could be chartered in case of emergency, not to mention commercial flights with first-class cabins and ample security.

Robert Strang, a corporate security expert and the chief executive of the Investigative Management Group, told me he had been conducting security audits for chief executives for 29 years and could think of no similar example.

“If a destination is so dangerous that it requires a backup plane, then a C.E.O. shouldn’t be going in the first place,” he said. And it’s not as if Mr. Immelt had been traveling to war-torn Syria or Afghanistan.

Mr. Strang said that dispatching a second plane in case of mechanical breakdown would seem excessive, given that airplanes in other places could be used in case of emergency. “I don’t understand the logic of a second airplane,” he said.

G.E. has acknowledged that the use of a chase plane was the subject of a whistle-blower complaint that led to a board-level review and directive to end the practice in 2014. The company’s corporate-travel department, which oversaw the two-plane arrangement, reported to John Lynch, the human resources leader, until 2013, when Susan Peters succeeded him.

G.E. said that Ms. Peters and the general counsel at the time, Brackett Denniston, participated in a compliance committee review that resulted in the directive to stop using the chase plane. A G.E. spokeswoman said that Ms. Peters was not available for comment. Mr. Denniston declined to comment, and Mr. Lynch could not be reached for comment.

G.E. has declined to say who, exactly, in the corporate-travel department came up with the chase-plane idea or acted on it; who kept it going after the order to stop it; or whether anyone was disciplined as a consequence. Mr. Immelt wrote in his letter: “I am aware, that in the course of the last 10 years, we have had four managers of corporate air. For a time, it was clear that G.E. had a difficult time keeping its planes flying,” even though the company is a supplier of jet engines to the world’s major plane manufacturers.

That Mr. Immelt didn’t know about the use of the chase plane, and failed to stop it after he learned about it, raises more questions and concerns, Professor Elson said. “If something of that significance wasn’t brought to his attention, then that’s a serious reporting and management failure,” he said. (Professor Elson said he was a longtime G.E. shareholder.)

A G.E. spokeswoman, Jennifer Erickson, declined to comment beyond the company’s previous statements.

The company's new chief executive, John L. Flannery, has grounded the planes and plans to sell G.E.'s corporate fleet to cut costs (company executives will now fly on commercial flights or charter jets). He is under mounting pressure to restore investor confidence and stop the stock slide. An activist investor, Nelson Peltz's Trian Fund Management, got a seat on G.E.'s board last month. Investors are especially concerned about the fate of the company's rich dividend; the stock currently yields well over 4 percent.

G.E. is scheduled to hold an investor conference on Nov. 13, when Mr. Flannery is expected to unveil the results of a strategic review, which includes his restructuring plans and revised financial targets. That may be his best chance to turn a new leaf on Mr. Immelt's troubled tenure.

But until G.E. makes a clean breast of the chase jet affair, Mr. Flannery may be dogged by the many unanswered questions about it.

"Flannery is saying the right things," Mr. Davis said. But, he added, "there needs to be a formal investigation and full disclosure." After so many years covering industrial companies, he said: "I thought I'd seen it all, until this. Millions of dollars were recklessly wasted, and shareholders deserve an accounting and assurance this won't happen again."

Correction: November 3, 2017

An earlier version of this column, using information provided by General Electric, misstated the group that made the decision to stop using two planes. It was a compliance committee, not the audit committee. The column also included outdated titles for John J. Brennan of Vanguard. He is the company's chairman emeritus and senior adviser, not its chairman and chief executive.

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