BerkeleyLaw
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Berkeley Center for Law,
Business and the Economy

University of California, Berkeley
School of Law
2850 Telegraph Ave, Suite 500
Berkeley, CA 94705-7220

Ph: 510.642.0532 – Fax: 510.643.7095
E-mail: BCLBE@law.berkeley.edu
http://www.law.berkeley.edu/bclbe.htm

GE to Shrink and Cut Costs

By Feifei He, LL.M. Candidate 2018 | December 4, 2017

As the largest U.S. industrial group, General Electric has announced it will shrink to focus on its most profitable departments of power, aviation and healthcare, in an attempt to revive its stock which has fallen to its lowest price in over five years.

For several decades, GE has built itself into a conglomerate with departments in the media, energy, banking, aviation, railroad, marine engines and chemical industries. Thus, this is going to be a significant turning point in GE history. John Flannery, who took over as CEO on Aug. 1, said he was "looking for the soul of the company again" and would focus on "restoring the oxygen of cash and earnings to the company."

Nowadays, investors on Wall Street are not in favor of conglomerates. They prefer to bet on focused businesses rather than a mixed portfolio. "Conglomerate discounts" often happen in companies involved in various businesses like GE.

Although the company may boost its sales and net income by combining uncorrelated business areas together, management and operations of the company may be inefficient without synergy. In addition, unlike a vertical or horizontal merger, when the company moves into diversified business sections, its ability and expertise in supervising different enterprises is necessary for its management.

Jeffrey Immelt, former CEO of GE, has made some expensive acquisitions in power businesses. As it turns out, they did not perform as well as expected in the slowing global energy market.

Apart from selling over $20 billion of its assets in the next year or two to increase its cash flow, GE also plans to cut dividends in half for its cost control and cutting policy. According to Howard Silverblatt, senior index analyst of S&P Dow Jones Indices, it is "the eighth biggest dividend cut in history among S&P 500 companies." In addition, GE will lay off 25 percent of its corporate staff and cut its board members from 18 to 12.