The Financial Effects of Strategic Divestment

– An Analysis of GE Capital

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Abstract

Strategic thinking and initiatives are traditionally focused on expanding business operations, developing new product lines, or entering new markets. Disruptive innovation, blue ocean strategy, and fast follower innovation differ in application, methodology, and specifics that vary from industry to industry, but commonalities remain. Building out new platforms, products, services, and customer engagement initiatives are virtually ubiquitous with different strategic techniques. That said, and the focus of this analysis, is the interpretation of strategy within an alternative framework. Focusing on the transition of General Electric from a multinational conglomerate heavily dependent on General Electric Capital Corporation to a conglomerate focusing on industrial technology and sustainability this research analysis the effect of strategic divestment on organizational performance. Analysing this transition both in terms of financial ramifications and a strategic headset, a review of the financial performance of GE provides a quantitative platform to conduct a strategic analysis. Strategy, and strategic divestment and decision making involve divestment, a multifaceted approach, and realignment of organizational resources. What this research does, in this context, is examine the strategic framework and direction of GE as this reposition occurs, alongside the financial performance generated during this transition.

Keywords: Strategy, Accounting, Divestments, Strategic management accounting

1. Introduction

1.1 Introduction

Strategic planning has a unique place among multinational organizations and management professionals, which results from the multiple product and services lines many multinational organizations possess. Every market, clearly, is different and will react in a different way to strategic initiatives and management objectives, but a culture of continuous innovation is increasingly prevalent in both the United States and around the globe. Regardless of the strategy embraced by the management team at an organization, the underlying focus of strategic planning and strategy is normally consistent. Building out various business lines, developing new products and services, engaging in business development, and expanding the business underline strategic objectives at virtually every organization. That said, it is important to realize that such a myopic approach to strategic thinking, planning, and implementation provides an insufficient picture of the business landscape. Existing research, practitioner research, and market analyses are replete with examples of organizations that expanded too quickly, developed new products and services, and suffered negative financial consequences as a result.

A contrarian view, however, whether applicable to a specific market situation, stock or bond position, or the strategic direction of a management team, focuses on narrowing the scope or focus of the entity in question. Growth, and developing various aspects of the organization, and attracting new customers is clearly a net positive for the organization in terms of increasing revenue, customer engagement, and market share. Additionally, in a globalized environment that is increasingly digitized, mobile, and augmented by trends such as artificial intelligence and virtual reality, flexibility is essential. One aspect of flexibility, and managerial expertise, that does not appear to receive quality evaluation is the concept that an organizational pivot, including reducing scope, may be required. Reducing the scope of business operations, whether in terms of products offered in a certain category or in the number of categories, may provide an opportunity for management and shareholders to create sustainable value over the long term.
1.2 The Strategy Overview

Prior to examining the effects of strategic decision making on a specific organization, or an industry group as a whole, it is imperative to conduct a review of strategic theory, strategic management, and the various options available to management teams. Building on this initial analysis, it is possible for analysts and management professionals to construct a framework via the performance of an organization can be quantitatively measured. One of the emerging areas of strategic methodology and frameworks is the utilization of separate business divisions to spur and create innovation (Crockett, McGee & Payne, 2013). The importance of such quantitative analysis is difficult to overstate, especially when it pertains to matters of strategic theories and strategy adoption. Management attention and focus on different strategy possibilities, however, is insufficient for successful organizational development and learning. In essence, organizations and management professionals must be able to align strategy education and development with organizational goals (Aranda, Arellano, & Davila, 2017). Comparative analysis, both to prior financial performance and to industry peer groups, is an essential step in establishing whether or not selected strategic method is relevant for the organization in question. Building a baseline for quantitative analysis requires a review and understanding, both from a theoretical and practical perspective, the implications of various strategic choices for the organization.

1.2.1 Methodology and Research Aims

The methodology of this research study is straightforward, and generates implications for both practitioners and academics curious about the impact of strategy, strategic divestment, and the effects of a strategic divestment on the financial performance of an organization. General Electric has perhaps engaged in the most thorough and comprehensive overhaul and reform of corporate operations and performance in the post financial crisis environment. Leveraging publicly available information, including data that can be cross referenced from several different sources. Analyzing and examining both the literature in the area of corporate strategy and financial decision making, and the realm of financial statement analysis, this study investigates and analyzes the quantitative impact of strategic decision making on the financial performance of an organization. The key question underpinning this research study is whether or not the the strategic divestment of certain assets and businesses will generate superior financial performance in a business environment rapidly disrupted by both internal and external sources. In a business environment rapidly upended by these trends and changes, these are relevant and important changes and trends to incorporate into any decision making structure.

1.3 Literature Review

1.3.1 Disruptive Innovation

Disruptive innovation, spearheaded and most well represented by Clayton Christensen of Harvard University, is widely regarded as the highest profile and critical theory of innovation to have been developed in the last several decades. In essence, the core tenets of disruptive innovation revolve around a disruptive organization entering a marketplace already occupied an incumbent organization. Most typically characterized with a smaller organization entering a new market occupied with larger incumbents, disruptive innovation can also be thought of as micro innovation (Markman & Waldron, 2014). Starting simply, perhaps with even a beta version of the final product, allows organizations to bootstrap new product and service concepts. Usually relying on a less expensive alternative in the marketplace dominated by a more expensive alternative, the disruptive organization gradually comes to control the marketplace. Incorporating essential aspects of the current product, and relying on customer feedback to integrate changes and improvements along the way, the disruptive organization is eventually able assume control of the market.

While this is the traditional example used to describe disruptive innovation, there is also a case to be made for higher end disruption. Organizations such as Tesla and Apple represent market examples of higher end disruptive innovation by introducing more expensive product and service packages. Analysing these organization through a lens of disruption allows this strategic analysis to be complete in a logical manner. Apple was not the first organization to introduce a mobile music player, nor was it the first organization to introduce a phone with internet access, or even a touch screen enabled device. The disruptive tact utilized by Apple, however, was to focus not only on the technological aspects of devices, but to focus equally as aggressively on the customer experience. Tesla followed a similar disruptive model; not the first or even second organization to develop an electric car, but the organization that has made electric vehicles a mass market product. Premium innovation, higher end products and services, and a focus on integrating customer demands into finished products appears to have provided a competitive advantage to both entities.
1.3.2 Fast Follower Innovation

Fast follower innovation is, at a high level, a relatively simple concept to understand in theory and at a practical level. Drilling down specifically to a market example, the process by which fast follower innovation is applied is that an organization will mirror the best qualities of the first mover organization. Such an approach also allows participants to leverage the research and development of the current market leader (Ross & Sharapov, 2015). Some of the key benefits of adopting this fast follower innovation strategy and mindset include benefits that are both related to operations and financial performance. Perhaps most clearly, in terms of operational performance, the fast follower organization is able to build on the most recent iteration of the product, thereby avoiding much of costly trial and error that inevitably accompanies new product development.

Financially, some of the benefits associated with fast follower innovation include the ability to undercut, in terms of price per product, the organization that pioneered the technology or service item. This is not merely a loss leader technique – since the fast follower organization avoided much of the research and development expense, a lower selling price is warranted and sustainable. That said, there are significant downsides and risks to embracing such an innovation methodology exclusively. Perhaps most notably and important for management professionals is the reality that competing solely on price has not traditionally established a path for market success. This can, and does, represent an existential threat to management teams competing solely on price when a lower cost producer enters the market. An example of fast follower innovation in the current market might very well include Samsung, which has achieved consistent market share and profitability in various technological categories while pursuing a combination of fast follower innovation and disruptive innovation.

1.3.3 Blue Ocean Strategy

Blue ocean strategy represents the innovative strategy with the most potential for organizations able to successfully implement this concept in terms of market presence and financial performance. In essence, and at the core of the blue ocean methodology is the fact that many markets are dominated by competitive forces centred around feature and price. New iterations of product or service offerings may include different or varied features to entice customers to upgrade akin to the new models of the Apple iPhone. While this approach may work there will inevitably be pricing pressure exerted by other market actors, including but not limited to organizations implementing a fast follower strategy as discussed previously. Over time, and as a result of focusing on features and price driven competition, the competitive landscape generates a playing field of undifferentiated products that fail to stand apart from other options. These are known as red oceans, emphasized and focusing on cost driven competition, and are what the blue ocean strategy seeks to explicitly avoid.

In order to successfully execute a blue ocean strategy, however, requires significantly more than simply acknowledging the reality that the competitive landscape. The proverbial blue ocean represents an untapped market, new ideas for products and services, and new ways of delivering value to the market that have to be developed. An example of blue ocean strategy that is often cited and repeated as an almost ideal representation of the concept is Cirque du Soleil, which completely transformed the value proposition of circus entertainment. By replacing pricier options such as live animals and specialized entertainers with an increasingly gymnastically oriented show the organization was able to significantly reduce overhead. More importantly, the company was able to redefine and reposition the organization in the marketplace, and redefine how the organization is perceived by the market, peers, and customers.

1.3.4 Strategic Decision Making

Regardless of the specific strategic methodology selected there do appear to be several key themes and underlying currents that exist within the broader strategic planning process. In a global business environment that is increasingly digitized, multicultural, and dynamic in nature there are imperatives that many management teams feel they must fulfill. Management teams, from senior leadership to front line employees, must work in a coordinated manner to develop a culture conducive to innovation (Financial Executive, 2012). Fostering a culture and collective mindset that encourages innovation is critical to sustainably grow the organization is essential toward making effective organizational decisions. Managing toward the marketplace, specifically shareholders and the expectations of steadily increasing earnings over time, dominates the conversation among management teams across industry groups. Corporate strategy and organizational planning is, in essence, a balance between strategic planning and the unpredictable nature of the business landscape (Behrens & Pekarek, 2016). Strategy and the strategic choices undertaken by management professionals flow through the organization in a variety of ways. Operations, stakeholder engagement and communication, and financial results represent different ways in which strategy thinking and strategy influence and drive the specific organization forward. That said, it is important to analyse two opposing
viewpoints regarding how organizations engage with the marketplace, and what decisions are undertaken by the management team.

**Shareholder Primary**

For publicly traded organizations the shareholders are, indeed, the owners of the organization and have voting rights to appoint the board of directors to advise management on strategic initiatives. Particularly in the United States, where General Electric is headquartered and reports earnings to the marketplace, shareholders are the primary focus of management teams and strategic objectives. Drilling specifically to the concept of shareholder primacy it readily becomes apparent that managing and planning strategy that place shareholders first and foremost at all times might very well short change the organization in the long run. Put simply, the concept and methodology of shareholder primacy has a powerful effect on the mindset of management, and management actions as it relates to business decision making and shareholder relations (Kriegstein, 2015). Earnings per share, net income, and other quarterly driven targets are some of the most widely cited and used metrics to determine success of the management team.

It is important to note, however, that succeeding and achieving metrics and benchmarks associated with these specific areas does not necessarily lead to sustainable and replicable success in the market. Stock repurchases, the issuance of debt to fund dividends and stock buybacks, reducing research and development expenditures in the short term, and focusing on product line extensions all serve to further the goals of shareholder primacy. Drilling down specifically into the intersection of corporate finance and strategic planning, the application of real option analysis provides unique insights into how strategy can be quantified (Ragozzino, Reuer, & Trigeorgis, 2016). Specifically, management professionals already utilize real options to compare different options, so it is logical to use these tools to assist with strategic analyses. Drilling into these trends and decisions it readily becomes apparent that a management team might inadvertently sacrifice longer term financial success to meet current financial goals. It is in that framework that strategists and business decision makers have begun to revisit the concept of shareholder primacy and propose an alternative framework.

**Stakeholder Orientation**

Management teams at publicly traded organizations, and private firms to a certain extent, have increasingly been focused on satisfying the needs and requirements of financial shareholders, particularly since the 1970s. Supported by research, academia, and market participants, shareholder primacy has dominated and continues to dominate the conversation surrounding organizations, management teams, and market success or failure. Following the worldwide financial crisis of 2007, however, this perception and mindset has begun to shift in a meaningful manner. Underlying this shift, and transition from shareholder to stakeholder accounting, is the development and implementation of a responsible accounting system for a stakeholder environment (Harrison & van der Laan Smith, 2015). Especially since this financial crisis was characterized by excessive leverage and financialization of business operations across the globe, a fundamental shift toward a stakeholder oriented has emerged. While the concepts and ideas related to stakeholder management practices are not new, a significant change and evolution in how these topics are approached are differentiating factors. Clearly there are differences between various frameworks in different markets, but there are several fundamental forces that exist throughout this stakeholder mindset.

First, an increased focus on sustainability, environmentally friendly and sensitive business practices, and improved corporate governance appears to be present in the marketplace. Such areas are indicative of information and management areas that had, traditionally, been qualitative in nature and subsequently not subject to the same rigorous analysis as quantitative data. Leveraging advances in technology, analysis, and the intersection of technology and accounting will allow organizations, and specifically accounting professionals, to better report data to stakeholder groups (Warren, Moffitt, & Byrnes, 2015). The advent of big data, improved analytics tools, and proliferation of mobile first data solutions has democratized operational information. A change of this scale provides opportunities for management and employees to make better use of organizational information for business decision making process. Second, and perhaps more importantly is the focus on longer term value creation for shareholders and stakeholders. The focus of this research is General Electric, and the choices made in a post financial crisis management team.

Analysed through the framework of these contrasting management philosophies and styles, the transition occurring at General Electric begins to crystallize and make more logical sense. As an organization acutely displaced by the ripple effects of the financial crisis, including being labelled as Systemically Important Financial Institution (SIFI), management at GE clearly recognized that business as usual was unsustainable. GE is but one example of an organization that has had to realign, reposition, and reorient itself in the marketplace following the financial crisis
The Finance of Strategy

Strategy and strategic thinking is, in and of itself, insufficient to lead and generate the necessary changes to realign, strengthen, and reposition organizations. Management professionals, regardless of organization or industry in question, are simultaneously evaluated on how the organization performs operationally and financially. Specifically, for publicly traded organizations, the ability to quantitatively explain and outline the benefits of strategy and the strategic changes underway at the organization is critically important. Every strategic and organizational decision, change in direction, or even simply continuing on an established pathway requires financial support. The ability for management professionals, and organizations at large, to incorporate the concept of strategy, technology, and innovation forms the foundation of strategic agility essential for navigating a dynamic business environment (Weber & Tarba, 2014). For management professionals seeking to proactively manage and lead changes initiatives, acknowledging this reality, and managing toward this dual goal is critical. While certainly not meant to represent a thorough or all encompassing list of the financing list and requirements for strategic initiatives, the two buckets of financing below form the cornerstone of any project finance.

Any strategic initiative, even a divestment of an operational segment or unit, requires an investment of management expertise and financial capital upfront to launch the initiative. Simply reviewing, planning, and enacting a strategic divestment will most likely require the labour and investment of internal employees, as well as most likely seeking the opinion of external consultants. This requirement is even more pronounced if the strategic changes or objectives of the organization is changing, or increasing in addition to current goals. Obtaining the financing for upfront investments of capital represents a one time investment and recognition of expenses versus an ongoing cash flow requirement. Of particular importance for management professionals is to consult with management accounting and finance members to construct a quantitative case for initiating the strategic objectives. Framing the case for innovation, a strategic shift in direction, or realignment of resources and direction in a quantitative manner will assist in building a broad case of support for this initiative. Building on this foundation, and rational explanation for the necessary investment, the case is simpler to make since the initiative is projected and examined in a framework management professionals are accustomed to using.

Virtually every management professional recognizes the difference between an initial investment and the financing required to sustain a project or initiative over a period of time. Often characterized in the context of a net present value (NPV) or internal rate of return (IRR) analysis or debate, the ongoing cash and investment requirements of a project are not something to be taken lightly. Akin to how a capital investment decision must make operational and financial sense to an organization, and how the financial worthiness of a project is determined with a combination of financial metrics, a strategic initiative must be thought of and evaluated in a similar manner. While this issue of ongoing financing certainly will not derail a project on its own, it is important for management to remain aware of the fact that ongoing capital requirements are something that must be properly analysed and accounted for during the strategic planning process. Similar to how the upfront capital investment or expenditure should be analyse as an investment in the future of the organization, the ongoing costs should also be presented as costs necessary to position the organization for future success.

1.3.5 General Electric

Multinational organization such as General Electric represent virtually an ideal testing environment for strategic experimentation and planning. The history of GE is one that mirrors that fluid and dynamic nature of the American economy at large as the nation transitioned from industrial production focused to one focused on service and finance. Under the tenue of Jack Welch, the legendary CEO and manager at the helm of GE during much of 1980s and 1990s the organization, GE Capital Corporation generated an increasing share of revenue and profits. At its peak, GECC generated over 50% of profits for the conglomerate that was better known for making appliances and jet engines. This increased and continuous financialization of shareholder and stakeholder interests created an organizational structure and market approach that was more brittle than appropriate for the current marketplace (Crane, Graham & Himick, 2015). Such a corporate structure, while unsustainable over the longer term, did provide earnings successes for several consecutive decades.

Following the financial crisis, and subsequent regulatory and shareholder pressure brought to bear on the management team at GE, Jeff Immelt (the incoming CEO) announced a spate of changes to realign and restructure the firm. An entirely new business segment, Ecomagination, was launched to help blend the engineering and technical roots of GE to the increasingly important issue of sustainable operations. In essence, and by reorienting the organization from a corporate finance perspective toward stakeholder based methodology of reporting organizational
performance, organizations create a broader base of value creation (de los Reyes, Scholz, & Smith, 2017). Building that bridge, and establishing the connection between sustainability and the operational excellence that GE was known for represents a definitive realigning of organizational resources and competencies. While this initiative clearly represents an expansion of current capabilities and competencies, this was not the only strategic chance that was underway at GE.

Reflecting the changing business environment in a post financial crisis world, and especially taking into account the increased regulatory and compliance costs necessary to maintain operations GECC, management made several strategic divestments related to the capital arm of the organization. Divestments included credit card finances and operations, real estate ventures, and generating lending for auto loans. Additionally, and perhaps most importantly for the purposes of the analysis of strategic divestments, the trading and asset management branches of GECC were also wound down, divested, and sold off to other buyers.

Strategy and strategic planning requires that the management professionals and team perform two activities simultaneously; incorporating market feedback and information while also developing a strategy that will apply regardless of specific market trends. General Electric, in both developing and executing a strategic plan during the last decade, demonstrates these simultaneous qualities when viewed through the lens of strategic analysis. It is clear that the management profession at General Electric cannot assume full credit for these strategic decision and changes. GECC, once a source of outsized profits, market capitalization, and brand strength for GE, became an albatross around the neck of the organization threatening the long term viability and success of the organization. What set GE apart, however, from other heavily financially oriented organizations in the wake of the financial crisis is that management took decisive action to realign the competencies of the organization to meet the changing needs of the marketplace. Listening to the market, clearly, is insufficient to enact the changes necessary at an organizational level to the extent that the management team at GE was able to execute.

Perhaps the most distinguishing feature of the strategic divestments and realignment projects undertaken by the management team at GE was the reality that these decisions were not made in a vacuum nor were these ideas and concepts that initially generated positive financial results. The ability to take action, even in the face of market forces pushing to stay the course, focus on incremental improvements, and not initiate drastic changes in an already volatile marketplace. Following the financial crisis, and buffeted by the forces of globalization, digitization, it would have been relatively simple for the management team to stay the course and remain conservative in strategic decisions. This, however, was not the course of action that was undertaken by the management team at GE – Ecomagination and the divestment of GECC both represented dramatic changes in the focus and orientation of the business. It is not enough to simply acknowledge that dramatic action that was taken by the organization. Financial markets and metrics evaluate organizations based on how well the organization fulfills the goals expected by shareholders.

**Realignment of the Organization**

Whether an examination is conducted of the academic literature, practitioner and industry oriented publications, or market commentary, an underlying trend clearly emerges. Management teams at organizations, regardless of size, must be able to proactively make decisions and navigate a global marketplace. Organizations including Microsoft, Tesla, Facebook, Amazon, global industries such as pharmaceuticals, and numerous other market actors continuously demonstrate the benefits and necessity of continuously realigning the organization. One of the primary responsibilities of management, on top of satisfying shareholder and stakeholder expectations, is to effectively and efficiently allocate organizational resources. Alongside this responsibility, there also exists a responsibility of management to effectively evaluate and utilize appropriate methods of marketing, particularly if current strategy is different from previous strategic choices (Mishra, Mohanty, & Mohanty, 2015). Depending on the organization and industry there may appear to be dominant strategies, but the reality appears to be that communicating strategic plans will be different from one organization to another. Resources under the control of the organization and the management team include financial resources, personnel, and intangible assets. Allocating these resources and individuals to areas of emerging growth without artificially deflating other areas of the organization is the balancing act that must be executed by every management team. That said, and increasingly important for management teams at publicly traded organizations, is the reality that strategic decisions must be explained in both operational and financial terms.

**Financial Implications of Strategic Choices**

No analysis of the strategic implications of a strategic choice would be complete without an examination or analysis of why an organization undertook said changes in direction. In the case of General Electric, and important to synthesize prior to quantitatively examining the effect of these changes on the company itself, is the role of activist
investors on the organization. Activist investors, as a force in the investment community, emerged as a significant force and catalyst for change following the financial crisis of 2007-2008. The same drastic changes in market performance, in the United States and overseas, that led to restructurings, reshuffling of management teams, and dramatic swings in equity prices, also created a viable opportunity for activist investors to advocate for change. Adapting to fast changing market conditions, digitized data, and the ramifications of globalization on business practices necessitates a more flexible and dynamic management mindset (Day & Schoemaker, 2016). Especially at large multinational organizations such as GE, with operations and business lines that spanned country and industry lines, the proverbial chorus for change grew more pronounced following the financial crisis. The development of Eco-magination, and the strategic divestment of GECC both, clearly, were decisions led by the management team, but these decisions were actively pursued and advocated for by activist investors.

Analysing the financial ramifications of these changes, specifically the strategic divestment of capital, personnel, and market share linked to GECC, is insufficient without first taking into account the pressure brought to bear by Trian Fund Management. Headed by Nelson Peltz, a longtime activist investor linked to increasing financial returns and performance at organizations, Trian has, by and large, supported the changes enacted by GE management. Drilling in specifically, there are several financial manoeuvres undertaken by management that Trian has actively advocated for in the past. These include, but are not limited to the following noted below:

1) Selling off and dismantling GE Capital, shedding assets of over $200 billion
2) Pursuing multi-billion cost reductions across business lines and asset classes
3) Increasing industrial operating margins as part of a realignment to an industrial and internet of things focused organization
4) Leveraging available debt capacity to finance strategic investments, acquisitions, conduct share repurchases, and issue dividends to shareholders

2. Method

The analysis of this research study is conducted by analyzing and comparing the financial results of the organization using publicly available information available via Google Finance, Yahoo Finance, other available sources of public information, and the SEC EDGAR data base. GE Capital, although most well known for contributions to the bottom line of the organization before the financial crisis, still accounted for 42% of organizational profit as recently as 2014. Stated differently, 6 years after the financial crisis of 2008, the capital and finance arm of GE still accounted for a plurality of profits. Additionally, the SIFI designation assigned to General Electric following the financial crisis inherently limited to prospective pool of potential buyers (Thomas, 2015). Selling and divesting over $200 billion in assets, to a variety of entities including Well Fargo, Blackstone inevitably took some time, and in addition to simply divesting assets from the company, GE management also has to ensure these assets were sold as close to market value as possible. While the financial ramifications of divestments on financial performance remain mixed (Koley, 2016) there does appear to a logical business case for divesting GE Capital from the larger organization, especially since the capital arm of the firm had caused issues for management professionals. Making a decision related to a capital divestment strategy, the trend and implications of divesting certain type of assets presents a muddled view on the financial effects of these decisions (Kolev, 2016). While some evidence does exist that splitting off certain categories of assets results in some outperformance over time, this decision is unique to every management team and entity. Drilling specifically into the financial and organizational ramifications of this divestment strategy there are a handful of factors that also drove this decision.

Underlying the analysis conducted within this research, there are two key trends and tactics that are used to help solidify and verify the findings of this research. First, the utilization of publicly available information makes both the research study, and the findings contained therein, makes this study replicable and applicable for both practitioners and academics. Second, in a business environment that is both rapidly digitizing and changing due to globalization and technological changes, management decision makers must be able to react and proactively forecast changes in the business environment. Clearly the designation of GE as a SIFI organization, and the increased regulations and regulatory scrutiny accompanying this classification was not an optimal situation, but there were other factors considered. This listing is not meant to be an exhaustive listing of the reasoning driving the divestment, but these undoubtedly had an effect on management decision making. A strategic divestment of such a large, and still profitable, division of the conglomerate was not a decision to be undertaken lightly.

1) The conglomerate discount – investors, both institutional and individual in nature, may assign a discounted valuation to organizations characterized as conglomerates. Investors, in general, appear to
like to diversify holdings of various equity groups than have the management team of one organization assemble a diverse business.

2) Debt costs – even though Jeff Immelt has divested large amounts of capital during his tenue at GE, it is critical to take into account that an organization must generate returns in excess of the costs of capital. To finance acquisitions, including the industrially oriented acquisition of Alstom in 2015, the management team at GE has increased the amount on the balance sheet, with plans to add additional debt.

   a. Linking back to the goals of management, that are in alignment with activist investors, utilizing debt capacity remains a cornerstone of strategic thinking and planning.

3) Share buybacks – dividends and share repurchases have, in the wake of an increasingly competitive business environment placing pressure on operating margins, become an increasingly popular managerial tool. That said, it is important to remember that even in an era when capital is more available than previously before, management has a responsibility to utilize capital efficiently.

The bottom line of any strategic plan, however, is the effect that these strategic choices and initiatives have on the financial performance of the organization. Viewed through this lens, the changes implemented by the management team must be examined through how the ramifications ripple through the financial markets. What follows below is a brief quantitative analysis of how General Electric has performed since the financial crisis. It is important to note, and acknowledge as a limitation of this analysis, that GE only began divesting itself of GE Capital in earnest during 2014. That said, it is important to note that although the divestment itself began in 2014, the tenor and tone at senior leadership levels changes during the crisis of 2008; GE Capital would be divested as soon as it is financially stable to sell assets.

3. Results

Clearly the financial performance of an organization, especially one as large and diverse as General Electric, is an amalgamation of a wide variety of financial metrics and tools. That said, there are several metrics and data points that can be analysed, and compared across periods of time, specifically over the period 2014-2016. This 3-year time period encompasses the time frame that management team divested virtually the entirety of GE Capital, in excess of $200 billion. Examining the performance, or change in performance during this time period provides an opportunity to examine what, if any, effect the divestments had on ongoing financial performance. For the purposes of this quantitative analysis, information was gathered from a number of sources including the SEC EDGAR database, Yahoo Finance, and annual reports issued by the organization.

3.1 Operating Profitability

Net income as a percentage of revenue, measured by dividing net income from continuing operations over revenue represents a metric that is common sized and comparable to other organizations in similar industries. For the years of this analysis, from 2014-2016, the net income percentage was as follows:

- 2014, 8.10%
- 2015, 5.30%
- 2016, 7.68%

For organizations operating as conglomerates, including the manufacturing of traditional and smart industrial devices, operating margins that exceed 5% over a multi-year period, while also engaged in massive strategic realignment of the company, appears to represent quality financial performance. Comparing the operating profit margin with the industry average for conglomerates however, it is readily apparent that the financial performance of General Electric during this time period, as measured by comparing operating margin profitability, lagged the market. For the same time period, 2014-2016, referencing CSI information related to the operating margin profitability, the following information is available:

- 2014, 10.52%
- 2015, 12.71%
- 2016, 13.44%
3.2 Free Cash Flow

Based on the publicly available information, it is clear that although General Electric continues to generate billions in profits, the efficiency and effectiveness of management activities remains under the results achieved by the market at large when analysed via the net profit percentage. A second metric that can be utilized to compare financial performances of organizations over time is the ability of the organization to generate free cash flow consistently. Investing in new initiatives, issuing dividends, engaging in share repurchases, and growing the business organically require free cash flow to be developed and sustained over time. Analysing the free cash flow statistics from General Electric, the following information is available for the time period 2014-2016. Examining the cash flows of General Electric, which is a well known metric for gauging operational performance, the results of these managerial decisions is clear. From 2014 to 2016, the combined cash flows generated by the organization declined from $2.2 billion to a negative $41.3 billion. It is worth noting, however, that the largest negative impact on cash flows for the organization was related to the financing section of the statement of cash flows. As the organization, and management team in charge, has offloaded components of General Electric Capital Corporation, and streamlined operations, retiring debt is a necessary part of his transition.

Analysing the cash flow performance of general electric there are several key themes and points of interest that become apparent. First, and arguably most important for this analysis, is the dramatic negative trend linked to financing cash flows. Drilling into more detail on this section it appears the primary drivers of this negative trend in financing cash flows are repurchases of stock, which totalled over $21 billion in 2016 alone, and simultaneously the paying down of certain debt instruments, which was over $58 billion in 2016. This illustrates the following strategic decision facing management going forward; is paying down debt and repurchasing shares the most effective and financially efficient use of shareholder capital?

Especially in a business environment where capital is more abundant, and cheaper, than any time in the last several decades, should management be focusing on balance sheet mechanics at the expense of strategic growth and initiatives? It is also worth noting that cash flow from operations, i.e. the cash flows generated from operating primary business lines, turned negative in 2016. This is especially worth nothing since in 2015, the organization generated nearly $20 billion in positive cash flow from operations. Analysing the financial results in coordination with management discussion and market commentary this dramatic decline in operating cash flow is the result of continuing restructuring or operations and the completion of the Alstom acquisition. Regardless of the specific causes of these specific causes of these fluctuations the financial results of the organization are undeniable – during the 3 year period between 2014 and 2016 the financial performance of General Electric has declined versus past performance.

4. Discussion & Future Directions

4.1 Divestment as Strategy

The purpose of this research was to analyse the strategic divestment of General Electric Capital Corporation, and to conduct this analysis within a qualitative framework of different strategy methodologies while also examining the financial ramifications of this strategy. It is, of course, important to acknowledge that strategic decision making does not take place merely framed by financial information and characteristics. Strategy, especially a longer term realignment of an organization as sophisticated, multifaceted, and global as General Electric, must be executed with a longer term mindset alongside financial analysis. Returning to a traditional market position as an industrially oriented firm, leveraging advances in smart technology reaffirms the strategic alignment embraced by Jeff Immelt (Beihl, Semper & Van den Keybus, 2016). From the evidence presented here, the discontented nature of Trian, an activist investor with a stake in GE, and the lagging performance of the stock price versus the market, pursuing this divestment approach requires short term financial sacrifices. That said, it is imperative that when conducting an analysis of a divestment approach to strategic planning and decision making to also take into account the qualitative basis for the decision.

General Electric, following the financial crisis, was faced with a significant problem – the finance arm of the organization, which was still generating a plurality of profits as recently as 2014. Divesting this profitable and large segment of the organization was not a transition or strategic initiative that would be undertaken lightly. That said, it is imperative that an analysis of such a divestment takes into account the overall business framework that such a divestment was made within. Following the financial crisis, and especially the assignment of a SIFI label to General Electric, which markedly increased regulations and the regulatory burden on the organization as a whole, a decision had to be made. This designation also had an impact on the private equity firms serving as potential acquirers for capital and finance business of General Electric (Huang, Ritter & Zhang, 2016). Should management at General
Electric pursue an increased financial presence in the marketplace, or realign to emerging market areas such as the industrial internet and smarter manufacturing facilities? The management team embraced the latter, and in spite of short term financial underperformance, there appears to be consensus that the organization is moving from an area of decreasing returns to areas of increasing potential future returns. As technology increasingly becomes integrated into every aspect of the business landscape, including manufacturing, the pivot toward industrial technology and smarter manufacturing processes appears to be a sensible long term decision.

4.2 Conclusions & Future Directions
In short, and this is clearly a partial analysis based on a relatively short term time period, 20214-2016, the financial ramifications of a strategic divestment of General Electric Capital Corporation has generated subpar market performance when compared to market averages and past financial performance. That said, the realities of the marketplace continue to evolve and become less hospitable to financially oriented corporations such as GE was constituted prior to, and immediately following, the financially crisis. Viewed through the context of financial analysis, a logical conclusion that can be extrapolated from this analysis is that this realignment of resources should be viewed from a longer term perspective. Examined through the lens of strategic theory and strategic planning, it is clear that management at GE has selected to focus on areas of emerging growth, including industrial technology and smarter manufacturers. What remains unknown at this early stage are the ultimate effects that this decision will have on the financial health and viability of the organization.

This strategic divestment and long term strategy perspective also provides an opportunity for future research analysis. Practitioners, clearly, have an opportunity to evaluate how the organization performs moving forward, both in terms of market share and financial performance. Additional areas for future research for academics include analysing larger swaths of publicly available information, and drilling into the effects of this strategic divestment on the long term financial viability of the organization. Lastly, for practitioners and academic researchers this provides an near ideal opportunity to examine and quantitatively analyse the concept whether or not less strategic divestments work as a strategic management tool. Findings may vary from industry to industry, and may even vary on an organizational basis, but the opportunity will persist. The fact that this study leverage publicly available data also represents an opportunity for future practitioners and academics to replicate, expand, and further develop this study moving forward.

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