The 10 Minute Mentor Podcast
Our ongoing series on leadership in the age of disruption

Episode 6: Learning from Failure Part I: Non-Traditional Investments and M&A

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TRANSCRIPT

David Reimer: Welcome to Merryck & Co's "10 Minute Mentor" podcast, part of our ongoing series on leadership in the age of disruption. I'm your host, David Reimer, CEO of Merryck & Co Americas.

Today's discussion is part 1 of a 2-podcast segment on the lessons we learn from failure. And it's not an academic journey. I am pleased to have Phil Gross with me today. Phil is an accomplished Fortune 50 executive, whose roles include GM and President of GE Silicones and GE Lighting, which you'll hear about today, as well as later roles heading up a disruptive business segment for Warner Lambert – which you'll hear about on our next episode. Phil, welcome to the podcast.

Phil Gross: Thank you, David.

DR: Phil, you've had many successes, and a lot of leaders like to talk about their victories. But I've found you to be unusually open to discussing the business challenges you *didn't* navigate as well as you'd have liked. Why is that?

PG: One of the overall things that I realize is, you learn how to execute from successes and through your whole career. But big issues that were basically failures at one point change the way you think about things. In some ways, they make you grow up a little bit more. They can make you more timid, or they can make you more bold, knowing that you've been through this and maybe can handle it again.

DR: So let's talk about GE, where I know you learned a lot, you ran multiple businesses, you hired Jeff Immelt, and you worked for Jack Welch. But you also had a couple experiences there that changed how you view the world.

PG: Well, the first was a project that had already been initiated, but it was my job to get it to the point where GE, approved it and we were able to get going and executing it. So, the objective was to protect at least a portion of our supply of tungsten, because tungsten, of course, is used... It was a key component for making light bulbs, and most of our sources were being supplied by politically unstable countries.

Finding a source of a commodity like that is the hard part, knowing it, going and building it, and trying to decide whether you're going to put all this money in the ground is a little more difficult. As time goes on and markets stabilize, you wind up with a situation where the last mine that's built is always unprofitable when it opens, because if it would not be, someone would have already built it.

DR: So you're at GE Lighting and you are charged with making this decision for where to mine – which I am assuming was not a typical investment decision for the company?

PG: This type of decision for GE was quite different because typically, investment decisions are made based on return on investment. In this case it was Jack Welch, who was the guy making the decision, had to decide to invest $100 million, which in 1978 was a lot of money. We actually came up with a metric study that projected our most likely losses, given the worldwide demand. And demand seemed to be known pretty well, and worldwide supply, was well known, because all the mines were already built.

DR: Right.

PG: And we got approval based on the fact that we would lose a certain amount of money for a certain period of time. Yes, it could be worse than that, but maybe not too much worse.
That project was executed perfectly, and then a bolt from the blue hit. It turns out that tungsten, and we knew this, is a strategic material, and governments keep strategic reserves of tungsten. The reason it's a strategic material is it's used for armor and armor-piercing weapons.

At that time, Russia was in a terrible economic situation and they were looking for any way they can get their hands on currency, and they decided to dump their strategic reserve of tungsten on the world market. And that affected prices for several years, way more than market forces would have. It was so far above our estimates of loss that we actually had to close the mine. So, this was a great project that started out, it looked like everything was perfect and it turned into an abject failure.

DR: So you had great analytics, you had perfect execution, and it still went belly up?

PG: It still went belly up, and there was almost no way to predict that.

DR: What did you as a young executive carry away from that?

PG: For one thing, you can't know everything. But in thinking about it, the biggest lesson here is that there are going to be some projects that you ought to decide that you shouldn't do them unless you can absorb a major loss.

Look at non-traditional go and no-go decision points when evaluating different types of investments. This was clearly a non-traditional decision. What I was concerned about all along in tackling this project is, given the traditional mindset of GE up to that point, I didn't see how we would ever get this project off the ground. Yet we did, because the management was astute enough to realize how it would benefit and was willing to take the risk. And it's very possible that Jack understood even the risk I didn't understand. When bad stuff like this happens, don't get frozen. Don't be a deer in the headlights, you got to do something. And what we did was we shut it down.

DR: Yeah, it's interesting because people do get, you get, if nothing else, emotionally attached to a project like that. And you think, "Well, we've put so much into it and we've come so far…"

PG: Well, emotion is difficult. I think you and I have talked about this. I've always said that the easiest part about mentoring CEOs is that the mentor doesn't have the same emotional response to the situations as the CEO does, and we all know that. And if we can go do a job without emotion it'd be pretty easy.

DR: Emotion strikes me as a good transition to the next instance I wanted to ask you about, which was a large-scale merger at GE, right?

PG: And this was a merger that didn't happen. I was the CEO of the silicone business. GE's portion of the business was almost, I guess about 800 million bucks or something like that. Yet we were a distant number two to Dow Corning. We identified that the number three player, which was Union Carbide at the time, was almost a perfect fit for us and with very little overlap. Their business turned out, in their view, was getting too small to fit into their overall strategy. So we started talking and we developed a merger plan. By combining the two of us we would have enough resources to really develop new markets and be a very, very strong number two.

We developed a plan and we worked very hard and got management approval and board of director level approval from both companies. We also sold this plan very diligently within our own company, because getting the people on the team to all of a sudden embrace the enemy and realize that now we're going to move ahead together, turned out to be a very interesting and not insignificant job.

The one question that I received when I presented this proposal to the GE board of directors was from an outside director. He was the chairman of Citibank at the time, and he asked only one question, and that was, "Do you think the Federal Trade Commission will allow this merger to go through?" And all the advice I had had from our law firms, internal lawyers, external lawyers, was that it would be no problem. Well, it turned out not to be the case. It did get blocked. And it killed the deal. Emotionally, it was extremely difficult for me. And more importantly, it was very hard to get our team re-oriented to look at a new strategy for the company. This was going to be the answer and we had such a bright view of the future compared to the view of the future we had prior to this plan, that it was very difficult to get over it.

DR: How did that impact you, when the deal fell through?

PG: Even though I had been running businesses now for probably 10 years, more than 10 years, I was just thunderstruck by this. I couldn't believe it was happening, and I have to admit that even though I wasn't a deer in the headlights, I was very close to one because this is sort of like your whole world, your whole game plan has been taken away from you. Everybody was relying on you to pull this off, everybody was relying on the deal to happen. And we had to change so many people's images of what we were or where we were going, and all of a sudden we have to change it back, change it to something else. And that was really a very difficult thing to do. And you have to have an alternate plan, even if you don't talk about it but just because it's strategically a good thing doesn't mean it's going to happen, and managers sometimes have to be more flexible and, I have to admit, more detached.

DR: Right. It is that notion of mentally putting everything into one basket. I'm thinking about a couple of companies over the last few years that have tried. Pfizer was sort of the poster child, right? They had two near misses, and when each one of those potential mergers gets shut down, it's easy to miss a beat or two.

PG: Yes. And I would say that mergers are particularly vulnerable to this type of situation, because you have to sell very, very hard internally at all levels to make a merger successful. You have to be a little bit more detached, but it's sometimes hard to do that, because you're the one selling also. So it's, I think, one of the more difficult things in business.

DR: Don’t get frozen when you’re blind-sided, always have an alternate plan, and try to keep your emotions at arm’s length: those are less painful lessons to hear from others than to learn oneself, perhaps. Join us for Part II of my conversation with Phil, where he talks about the difficulty of taking a disruptive environmental breakthrough from lab to market, and reflects on the implications for leaders today of a few of the lessons he learned the hard way. Thanks for listening!