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End of the Road: Firing of Executive Gives Rare Glimpse Of Intrigue Inside GE --- Firm Calls In a Psychologist In Midst of Palace Revolt, Claim That Wife Meddled --- `The Wimps of Worthington'

By William M. Carley and Amal Kumar Naj. **Wall Street Journal** [New York, N.Y] 23 Nov 1993: PAGE A1.

Abstract (summary)

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Thus ended a sparkling executive career at GE, a career in which Mr. Welch had once taken an interest. But Mr. Russell, who was fired shortly after Mr. Welch sent his memo, didn't go quietly. He went to the Federal Bureau of Investigation, complaining that the real reason for his ouster was that he had run across corporate wrongdoing, including a scheme to fix industrial-diamond prices.

Headquartered in Worthington, Ohio, GE Superabrasives at first prospered under Mr. Russell. With the energetic, handsome, 6-foot-2-inch executive at the helm, Superabrasives saw its profit shoot to $70 million in 1989 from $16.5 million in 1986. Early in 1990, Mr. Russell was named a GE vice president, one of only 125 officers in the empire. At age 51, he was making $190,000 a year plus benefits, including use of a Jaguar. "I am so pleased for -- and proud of -- you," Mr. Welch wrote to Mr. Russell at the time. "This is a hard-earned, well-deserved promotion."

Full Text

John Welch, chairman of General Electric Co., was getting angry. As he checked up on problems in the company's industrial-diamond business, he wasn't getting the answers he wanted from Ed Russell, the vice president in charge.

"I was probing him, questioning him, questioning him, and he wasn't giving me anything but air," Mr. Welch complained in a subsequent court deposition. As he and other GE executives bombarded Mr. Russell with questions, Mr. Welch added, the vice president gave only vague answers: "50,000 feet, high altitude . . . `Don't worry, Jack,' type of thing."

The day after that September 1991 meeting, Mr. Welch faxed a note to Mr. Russell's immediate superior. "Bottom line," he wrote, "Russell has to go."

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Mr. Russell's riposte and the furor that followed show how a fired executive can make life miserable for his former employer. Although GE vigorously denies his allegations, they have led to what Anthony Nanni, a chief litigator at one of the Justice Department's antitrust sections, calls "a very active investigation into allegations of hard-core price fixing." How many of Mr. Russell's allegations the department is pursuing isn't clear.

Mr. Russell has also filed his own suit in federal court in Cincinnati, set for trial in February. While many documents are sealed, the suit has produced enough depositions, internal GE memos and other documents to piece together the story of the disintegration of a high-level executive's career. The documents also provide a window into the management techniques of one of the nation's most renowned corporate chief executives.

Once dubbed "Neutron Jack" for his swiftness in cutting layers from GE's work force in the 1980s, Mr. Welch last year drew attention for spelling out in the company's annual report his criteria for promoting or firing executives. But Mr. Welch's application of his standards has usually been played out behind closed doors.

Not so in the Russell case.

When he joined GE in 1974, Edward Russell seemed to have all the qualities to make the cut, and his career moved rapidly. With an engineering degree and an M.B.A., he was assigned to strategic planning in corporate headquarters in Fairfield, Conn. Two years later he was named to head the lighting-products operation in Mexico, then made a manager of GE International Lighting.

In 1985, Mr. Russell became general manager of GE Superabrasives, which makes synthetic diamonds used in industry to cut hard materials. GE invented the way to make synthetic diamonds in the 1950s. Its only major competitor has been De Beers Consolidated Mines Ltd., which makes synthetic diamonds in Europe and mines real ones in Africa.

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But trouble was brewing. With recessions starting around the world, GE Superabrasives' profit dropped to $57 million in 1990. And the unit had been placed under the GE Plastics Group, based in Pittsfield, Mass. GE Plastics, headed by senior vice president Glen Hiner, began to put its own people into the diamond unit.

That created a culture clash, according to a memo Mr. Russell later wrote when he heard he might be fired. The men from GE Plastics, he wrote, "lack . . . the mid-America values and work ethics, and for the most part are heavy-drinking womanizers, expense-accounts cheats . . . the pond scum of American industry."

When one of the men from GE Plastics attending a sales meeting in Florida allegedly harassed women, tossed beer bottles and punched holes in a hotel-room wall, causing $5,000 in damage, Mr. Russell complained to Pittsfield, he stated in his memo. Don't worry, he says he was told, some GE Plastics men had trashed a hotel in Monte Carlo, causing far more damage. At Pittsfield, Mr. Russell concluded in his memo, "We became known as the `Wimps of Worthington.'"

In another move that began causing problems, Mr. Russell divorced his wife and began a relationship with a GE Superabrasives marketing staffer, whom he married in 1988. The new Mrs. Russell, according to a GE legal brief, began to meddle in the management of the diamond unit, creating resentment by others.

"They referred to her as Nancy Reagan," says Denise Maurer, Mr. Russell's secretary at GE. But Mrs. Maurer says accusations that Mr. Russell's wife was managing the business were "gross exaggerations." In an interview, Mr. Russell says his wife left GE shortly after they were married, and allegations that she interfered in the diamond business before or after that are "absolutely ridiculous." Mr. Russell's wife, Shirley Costantino, calls GE's claims "garbage."

While GE Superabrasives people were bickering among themselves, De Beers was overtaking GE's diamond technology, according to Peter Foss, Superabrasives' marketing manager, who was placed in that job by GE Plastics.

By his account, the problem was in metal-bonding saw diamonds, or MBS, the highest quality and most profitable of synthetic diamonds. "That's where De Beers had taken the leadership position away from us," Mr. Foss said in a deposition. "Our customers told us when I joined in 1990 that we had not been listening to them when they told us in the '80s that we needed to get our technology in shape and to improve our product line."

For high-quality MBS diamonds, Mr. Foss added, De Beers had grabbed more than 50% of the market. GE's share, he estimated, was in the low 30s.

By early 1991 -- with GE diamond profits falling, De Beers forging ahead and discord bubbling within GE Superabrasives -- battles broke out between Mr. Russell and staffers put into his unit by GE Plastics. One staffer, Steve Palovchik, finally got in touch with Mr. Russell's boss, Mr. Hiner, the GE Plastics chief in Pittsfield.

"And we had a private meeting in Pittsfield," Mr. Hiner said in a deposition, "at which time Mr. Palovchik described to me a business in disarray and in what I would describe as a palace revolt that was under way in GE Superabrasives."

Alarmed, Mr. Hiner called Jack Peiffer, GE senior vice president for human resources. Mr. Peiffer phoned Bradford Smart, a Chicago industrial psychologist who had consulted for GE before.

As Mr. Smart, in a deposition, recounted the phone call from GE, he was told that Mr. Russell was "in deep trouble job-wise. Some of his subordinates have gone above his head and have complained about his leadership style." Mr. Smart was asked to counsel Mr. Russell.

In March 1991, Mr. Smart met with Mr. Russell in Chicago, and later wrote a memo for him listing his strengths: "Far above average intelligence . . . very hard worker . . . professional appearance . . . can be very warm, supportive and caring." But Mr. Smart also interviewed staffers in Worthington. One GE document says Mr. Smart was told by midlevel managers at Superabrasives that Mr. Russell was "insecure, paranoid, indecisive . . . utterly lacking in strategic vision or leadership capabilities." Employees, the GE document adds, "also expressed deep concern about Mr. Russell's sometimes violent temper, viewing him as a `loaded cannon.'" After getting such views about Mr. Russell, Mr. Smart said, "I thought he could be fired at any moment."

By April 1991, word of Mr. Russell's problems had reached GE's top brass. When Mr. Welch reviewed the performance of several executives, the discussion included the profit decline at Superabrasives, staff discontent and the problems allegedly caused by Mr. Russell's wife.

One GE document summarizing the review bore this notation: "Make sure his wife is out of the business equation." That, Mr. Welch testified, is "shorthand for the discussion that took place . . . about his wife coming to the office, of doing things." Mr. Welch added: "That's a pretty strong statement. I don't recall ever seeing this in an evaluation of any GE officer, to keep a family member out of the running of the business, in my 25 years in the business."

The performance review, Mr. Welch concluded in his deposition, "was just disappointing. I had been a supporter of Mr. Russell, and it was disappointing."

Three months later, Mr. Russell's career began hurtling toward disaster. In July, he presented a strategy analysis at GE headquarters to Mr. Welch, Dennis Dammerman, GE's senior vice president for finance, and other GE officials. Mr. Dammerman began asking about problems in MBS diamonds. "I watched Mr. Dammerman question him," Mr. Welch testified, "and I jumped in every now and then, after I got the drift of where it was going, to pursue what we're doing, how we're doing, could we get back on track."

Mr. Russell sought to reassure his superiors by saying, according to Mr. Welch, that everything was "fine" and "under control." But as the meeting broke up and Mr. Russell left the room, Mr. Dammerman wheeled around and told Mr. Welch, according to the chairman, "That son of a gun lied to us. He sat here and lied about what's happening out there" in Worthington. The Superabrasives business, Mr. Dammerman maintained, wasn't fine at all. Mr. Welch was shocked. He said in his deposition, referring to Mr. Russell: "That was the most unbelievable performance we had ever seen in

GE."

Still uncertain about Mr. Russell, the chairman assigned Robert Nelson, GE vice president for financial analysis, to check on the Worthington operation. His instructions, Mr. Welch said, were "along the lines of, `Can we get a handle on what the numbers look like out there? What's happening in inventories? Sniff around and see what's going on.' " Mr. Nelson reported back that Mr. Russell "had not been candid" in responding to the Dammerman questions, a GE document says.

Mr. Russell vehemently disagrees with this description of events. He disputes the idea that GE had fallen behind in technology, saying that he had beefed up research by hiring scientists from new disciplines. He says he presented a paper at the meeting with Mr. Welch with statistics showing that GE was gaining market share against De Beers, rather than losing. This was directly responsive to Mr. Welch's concerns, he says. Mr. Russell also vigorously denies that he misled GE's chairman. Mr. Nelson, he adds, must have gotten "bad facts."

In September 1991, at another strategy review in Pittsfield, Mr. Russell made his final appearance before Mr. Welch and other top GE officials -- with catastrophic results. Responding to questions, Mr. Russell gave what Mr. Welch described as the "50,000 feet, high altitude" answers. He again brushed over the problems in MBS diamonds, the chairman complained in his deposition. He "didn't get to the heart of the problem, which was De Beers, De Beers' quality, De Beers' yields of MBS diamonds. . . . He didn't understand the seriousness and the magnitude of the issues we were trying to deal with."

On the helicopter back to GE headquarters, Mr. Welch said, he decided to have the vice president fired. The next day, he faxed his "Russell has to go" note to Mr. Hiner in Pittsfield. Mr. Russell, Mr. Welch wrote, "made a fool of himself in July and yesterday he appeared totally out of it." He gave Mr. Hiner until the end of the year to discharge Mr. Russell.

Mr. Russell disputes this description of events. At the September meeting, "there was no hostility" toward him on the part of Mr. Welch, he says. "Can you imagine meeting with Jack Welch and not knowing if you gave a lousy performance?" He adds that GE Superabrasives' profits dropped in 1991 mainly because GE Plastics allocated greater costs to the diamond unit, not because of inroads by De Beers. And he notes that just weeks earlier, his salary was raised to $205,000 from $190,000, with Mr. Welch's approval.

Nevertheless, rumors swirled through GE that Mr. Russell would get the ax. In Worthington, one afternoon in October, Mr. Russell's secretary told him she had heard he would be replaced with a GE Plastics man. Shocked, Mr. Russell dictated a memo for his files about what he believed was wrongdoing at GE. It ranged from expense-account abuses, such as a salesman's alleged trips to Bangkok to visit prostitutes, to an alleged price-fixing conspiracy with De Beers.

Mr. Russell's secretary, who typed the memo, was aghast at its contents. Mrs. Maurer, in a deposition, said she confided in a fellow worker. "I told him that Ed had written a document . . . a character assassination." She added: "We discussed . . . how he had been acting and just the chaos that was going on in our office."

Mr. Russell, however, was convinced he had good grounds for the charges. A few weeks previously, Mr. Hiner had flown to London, where he met with top officials of De Beers. By Mr. Hiner's account in his deposition, he wanted to obtain a license for De Beers diamond production technology to offset GE's weaknesses, in return for GE technology on waste disposal. De Beers wasn't interested.

Mr. Russell suggested in his memo that the real purpose of the meeting had been to fix prices of synthetic diamonds, for which GE Plastics wanted to charge 12% more. The London meeting was held at De Beers's private dining room "complete with Havana cigars," Mr. Russell said in his memo. "Decadence meets sleaze."

Mr. Russell says he had opposed Mr. Hiner's meeting with De Beers from the beginning for fear of violating U.S. antitrust laws. "I said to Mr. Hiner, `You are absolutely crazy'" to meet with De Beers, Mr. Russell says in an interview. Mr. Russell also gave a memo to Mr. Hiner that he says included a strong warning about the danger of antitrust violations.

Mr. Russell says that his recommendations were ignored by Mr. Hiner, and that he was ultimately fired for his protests. In his memo, Mr. Russell concluded: "The GE Plastics culture is disgusting, a cancer on American industry. . . . I would rather be a wimp in Worthington than a comrade from GE Plastics."

Mr. Hiner, now chairman of Owens-Corning Fiberglas Corp., has vigorously denied any wrongdoing, including price fixing or firing Mr. Russell for improper reasons. De Beers has also denied any involvement in price fixing.

The end of Mr. Russell's 18-year career at GE came suddenly. On Nov. 11, 1991, he was summoned from Worthington to Pittsfield by Mr. Hiner, ostensibly for a budget meeting. But as the two men sat down, Mr. Russell says in an interview, Mr. Hiner handed him a letter of dismissal. Mr. Russell would be relieved of executive authority immediately, but would continue to get his salary and perks for one year unless he found another job sooner.

"The whole thing took 15 minutes," Mr. Russell recalls. As soon as Mr. Russell signed the dismissal letter, Mr. Hiner had him flown back to Worthington in a GE corporate jet.

Two years later, Mr. Russell is still looking for a job.

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