Revisiting General Electric's 'Marketing Revolution' through the Prism of Collusion: The Heavy Electrical Equipment Cartel Hearings of 1961

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Introduction

In 1971, the *Journal of Marketing* published a paper by Hiram C. Barksdale and Bill Darden surveying the attitude of marketers' to the marketing concept. In the introductory section of the paper, they propose that "the General Electric Company (GE) is usually acknowledged as the first firm to systematically structure its operations in accordance with the precepts of the marketing philosophy" (p.29). This, they argue, was achieved under the leadership of CEO Ralph J. Cordiner and heralded a shift in the post-war production-oriented organization to one placing the marketing concept at the core of its operations and disseminated throughout all divisions. Although writing some two decades after the onset of these events (and offering limited supporting evidence), Barksdale and Darden (1971) highlight GE's marketing practices pervading all aspects of the organization from product and production planning, pricing strategy, distribution and inventory control, and customer segmentation and after-sales service.

Attempts to attribute the origination of the marketing concept to any individual or organization are "highly controversial and difficult to prove" (Byus, 2003: 274). The purpose of the present paper is not to restate (or contend) the origins of the marketing concept, but rather to contest the assertions of Barksdale and Darden (1971) – and other scholars – who assert the adoption of a marketing orientation at GE in the 1950s under Cordiner and to question the extent that organizational growth and performance were actually products of significant antitrust breaches and abuse of market dominance. This is accomplished through the narratives of organizational criminologists (Gilbert Geis, 1967), media reports (Smith, 1961a, b), texts by journalists (Herling, 1962), and the records of the major US Senatorial hearing in 1961 on the price-fixing practices of GE and its competitors during the 1950s.

GE and the Marketing Concept

Incorporated in 1892 in New York, GE was the result of a merger between Edison General Electric and the Thomson-Houston Company, and has a large and diffuse product history, producing variously, lighting, computers, jet engines, turbines, electricity transmission systems and distribution motors, and medical imaging equipment. GE was an early proponent of industrial R&D laboratories, industrial parks, and at the vanguard of management concepts such as decentralization in the 1950s and strategic planning in the 1970s.

GE were viewed not only as the 'first' organization to adopt the marketing concept, but also their pioneering efforts were seen to set the standards that were "…widely accepted…by other organizations" (Barksdale and Darden, 1971: 30). At the onset of Cordiner's tenure as CEO, multiple marketing personnel were succeeding to divisional headships in GE that "puts marketing managers at the top of the operating pile ... [where] the GE marketing men are riding high" (*Business Week*, 1950: 31), while fellow executive John. B. McKitterick claimed that GE under Cordiner's leadership was premised on the marketing concept: "…a customer oriented, integrated, profit oriented philosophy of business" (McKitterick, 1957 – see also Borsch, 1958).

Over a twenty month period Cordiner reorganized GE creating a Management Development Institute, decentralization its divisional decision-making, promoted marketers to senior executive positions, and introduced eight 'blue books' containing GE's rules, procedures and management procedures, including one text that "spells out the scope, functions, and procedures to be followed by marketing departments of the company. But it does more than that. It widens the boundaries of those departments, narrows boundaries of other divisions. It brings the marketing manager into the limelight and it brings into being the marketing-manager plan of organization" (*Business Week*, 1950: 31). In the 1952 *General Electric Annual Report* the importance of marketing is emphasized:

> "The marketing concept introduces the marketing man at the beginning rather than at the end of the production cycle and integrates marketing into each phase of the business … Marketing will have authority in product planning, production scheduling, and inventory control, as well as in sales, distribution and servicing of the product, the different manners that one may segment a market, and the criteria for effective segmentation".

Cordiner (1958: 30-31) also believed that customers desired "the ethical assurance that they are dealing with a fair and honest company." The changes made within the company were regarded as receiving a supportive attitude from GE's managers: "Everybody likes it – Those who have worked with the new setup in GE believe that they have hit upon the answer to a lot of problems never licked in the past" (*Business Week*, 1950: 36).

The foregoing account of GE recast under Cordiner as a customer focused organization and marketing pioneer in the 1950s has received consistent support from marketing scholars (Hunt, 2018; Ocasio and Joseph, 2008; O'Boyle, 1999; Mitchell, 1977; Barksdale and Darden, 1971). If GE was indeed an early marketing pioneer, as claimed, then we would expect to see this reflected in their practices at the time; if not, then we would have expected caveats to such claims by their numerous proponents (Tadajewski, 2010). As we shall now see, GE's actions would seem less a concerted effort to meet customer's needs and wants, but rather efforts to stabilize key post-war industrial markets through price-fixing and other illegal practices in what is widely regarded as one of the most serious breaches of antitrust law in business history.

General Electric and the Heavy Electrical Equipment Cartel case of 1961

In 1957 the U.S. government initiated a series of grand jury probes into practices in the electrical equipment industry and a potential breach of the Sherman Antitrust Act of 1890. What ensued was regarded at the time as the most significant violation of the antitrust laws since their inception (Ganey, 1961; Punch, 1996). The Heavy Electrical Equipment Cartel Cases concluded in 1961, uncovered a major price-fixing conspiracy involving 29 firms led by GE and the Westinghouse Electrical Company between approximately 1950 and 1960.

The motive behind the cartel was to attempt to stabilize competition in the wake of a price war in the industry and market pressures that forced a dramatic fall in prices (*Administered Prices Hearings*, 1961). The investigation by the Department of Justice and FBI uncovered a complex conspiracy of price-fixing, bid-rigging and the sharing of sensitive customer information. A series of 'committee meetings' were held in order to maintain discipline among the conspirators throughout the 1950s; invitees to the meetings were referred to as "the Christmas card list", meetings as "choir practice", and the mechanism by which price-fixing and bid-rigging would occur as "the phase of the moon" (Geis, 1967). In order to avoid a protracted public trial and significant public exposure of the details of the cartel, defendants mostly pleaded guilty, while more senior managers entered pleas of 'nolo contendere' (a plea of no contest that is frequently part of a plea bargain). The salient characteristics of the conspiracy were as follows:

i. 196 individuals subpoenaed;
ii. Four grand juries convened;
iii. Twenty indictments handed down;
iv. 45 defendants (eleven from GE) from 29 firms;
v. Seven defendants sentenced to thirty days gaol time (including four vice presidents, two divisional managers and one sales manager); and
vi. A total fine levied of $1,924,000.

Source: Geis (1967: 140-141).

As the Government hearings unfolded, executives explained how the illegal practices described above were endemic within GE's corporate culture and a daily feature of management life: "It had become so common and gone on for so many years that I think we lost sight of the fact that it was illegal" (GE officer, US Senate, *Administered Prices*, Part 27, 1961). GE had created and reinforced a culture of collusion within the organization through its 'profit at all costs' divisional strategy that pressured personnel into unethical decisions. Executives went to considerable lengths to conceal the conspiracy including: minimizing telephone calls to competitors, not to be observed travelling together, and not leaving any materials behind on the conclusion of a meeting.

GE's practices were described as a "corporate disgrace" by Senator Estes Kefauver, chair of the Senate Subcommittee on Antitrust and Monopoly, charged with investigating the cartel (*Time*, 1961), while Cordiner conceded that "It was a lazy, indolent way to do business" (*Time*, 1961).

Concluding Remarks

In the wake of the legal proceedings, Manischewitz and Stuart (1962) bemoaned that "By the end of 1960 it was difficult indeed to believe that anything worse could happen in the field of marketing to provide its critics with a stronger case. But the year 1961 added several layers of tarnish to the image" (p.2). The role that Ralph J. Cordiner played in the maintenance of the cartel is somewhat opaque; he pleaded innocent before the congressional hearings, but stepped down from GE in 1963.

From this remove one must assume that GE was sincere in its attempts to adopt pioneering marketing concepts in the 1950s. We must, however, evaluate such claims against the illegal practices that we might describe as ‘imperfecting the market’. Ultimately, however, this illegal conspiracy runs directly parallel with the period in which GE was viewed by both itself and observers as a marketing pioneer and customer focused organization.

Sample References

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