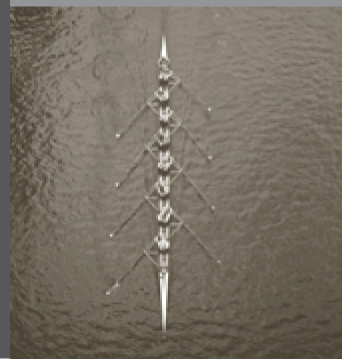
case 18

Jeff Immelt at General Electric, 2001–2006



When Jeff Immelt took over as chairman and CEO of General Electric on September 7, 2001, he had no doubts that his predecessor, Jack Welch – "living legend," "best manager of the past half-century" – would be a tough act to follow. But little did he realize just how tough it would be.

A few days after occupying the chairman's suite, two hijacked airliners ploughed into New York's World Trade Center, setting off a train of events that would profoundly affect GE's business environment. A month later, Enron's collapse precipitated a crisis of confidence over corporate governance, executive morality, and financial reporting. The scandal at Tyco International – a company that had explicitly modeled itself on GE – reinforced suspicion of conglomerates and their management. It was not long before GE's own financial structure and financial reporting were under fire. After being lauded by analysts for its smooth earnings growth, rumors of earnings manipulation by GE circulated among the investment community. More specific criticisms were directed at GE's alleged disguising of the true risks of its businesses by consolidating the financial statements of its industrial businesses and its financial services business, GE Capital. In March 2002, Bill Gross, of the IPCO fund management group, argued that GE was primarily a financial services company but, with the support of GE's industrial businesses, GE Capital had been able to operate on a narrow capital base while maintaining a triple-A credit rating. Further problems for Immelt emerged with the September 2002 leaking of the details of Welch's remarkable retirement package from GE. Initial concerns as to whether Immelt could ever match the incredible 50-fold increase in GE's market value that Welch had achieved, were now refocusing around the question of how Immelt would halt GE's sliding share price. On the date that Immelt's selection as GE's next CEO was announced, GE's stock was trading at $53. Two years later it was trading at half that level.

By the end of 2006, Immelt had stabilized GE, established himself firmly at the helm, and had stamped his persona and style on the company. His first challenge had been to restore investor confidence in GE. This he had achieved through constant communication with investors and more detailed financial reporting. From February 2003 to January 2007, driven by strong underlying financial performance, GE's stock price followed a near-continuous upward trend – although never reaching the level of September 7, 2001 when Immelt took over.

A greater challenge was coming to terms with Welch's legacy at GE. Each of GE's CEOs had been associated with successfully adapting GE's strategy and management systems to the challenges of the particular era. Among these, Welch had been remarkable for the scale of his vision and his dedication to its implementation. Welch had unleashed top-to-bottom organizational change, and maintained the pace of change over two decades. He had swept away most of GE's carefully constructed structure and elaborate corporate planning system, instituting a system that relentlessly challenged GE managers for improved operational and financial results. The result was a corporation that combined massive corporate size with flexibility, entrepreneurial responsiveness, and a constant quest for superior performance.

Immelt recognized that Welch's strategy and style were ideal for the circumstances of the time and reflected Welch's own personality and beliefs. The challenge for Immelt was to develop an identity and strategy for GE that were suited to the challenges and opportunities that the corporation faced in the 21st century, together with a management style that was consistent with his own persona.

By the beginning of 2007, Immelt had made considerable progress in developing his vision for GE and articulating that vision through a number of key strategic themes. He had taken significant steps to communicate GE's new direction among GE's stakeholders and to enact it through acquisitions, capital investment allocations, changes in GE's organizational structure, and changes to GE's management systems. Immelt's strategic direction had received a strong endorsement from fellow managers, external analysts, and various GE watchers. In 2006, GE regained its status as "America's Most Admired Company," an award it had not received since 2002.[1] Growing confidence in Immelt was fueled by GE's strong growth in revenues and earnings (see table 18.1). However, as several analysts observed, this performance was attributable

TABLE 18.1 General Electric: selected financial data, 2001–2006

	(in $ millions unless otherwise indicated)					
	2006	2005	2004	2003	2002	2001
Revenues	163,391	149,702	134,481	112,886	113,856	107,558
Earnings before accounting changes	n.a.	16,353	16,819	15,823	15,182	14,078
Net earnings	20,829	16,353	16,819	15,236	14,167	13,791
Return on average share owners' equity (%)	18.8	17.6	17.6	19.6	27.2	24.7
Total assets	697,200	673,342	750,507	647,828	575,236	495,012
Long-term borrowings	n.a.	212,281	207,871	170,309	138,570	77,818
Employees at year end:						
United States	n.a.	161,000	165,000	155,000	161,000	158,000
Other countries	n.a.	155,000	142,000	150,000	154,000	152,000
Total employees	n.a.	316,000	307,000	305,000	315,000	310,000

SOURCE: GENERAL ELECTRIC 10-K REPORTS.

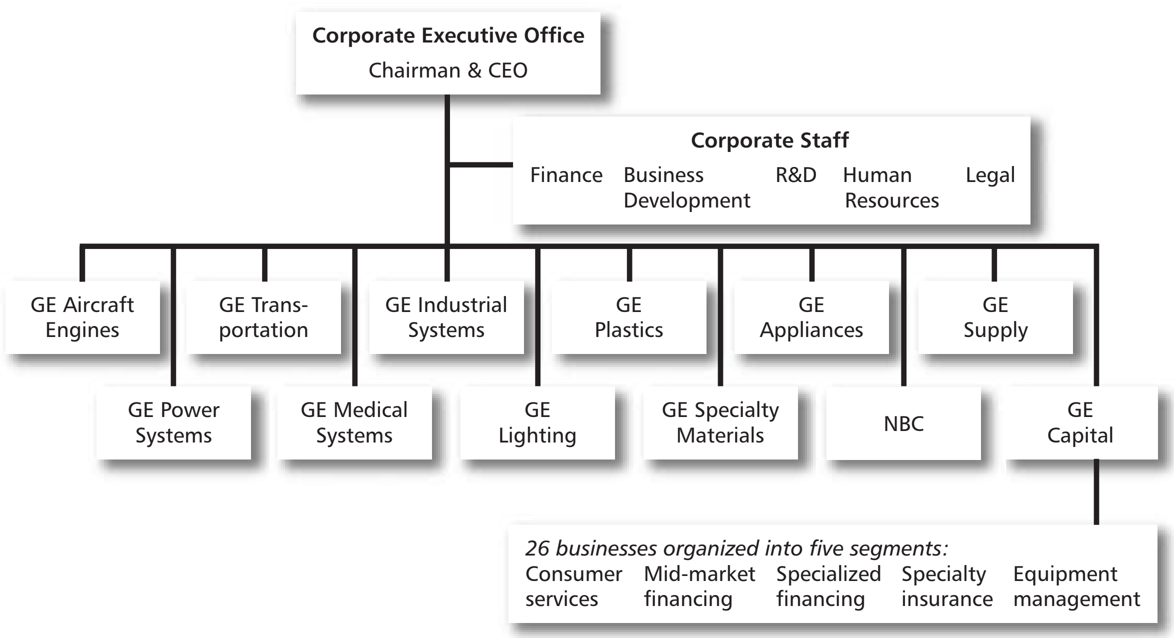
primarily to the strength of the world economy after 2002. Whether Immelt's new strategy for GE would provide the basis for the long-term prosperity of GE had yet to be seen.

General Electric Company

The General Electric that Jeffrey Immelt inherited in 2001 was the world's most valuable company and was widely regarded as the world's most successful. The key to its success had been constant adaptation. This adaptation involved both the business portfolio and its management systems. Under Jack Welch, GE's business portfolio had shifted substantially: by 2001 it was more of a service company than a manufacturing company – GE Capital contributed close to half of GE's revenues and technical and support services were important revenue generators for most of GE's industrial businesses. Figure 18.1 shows GE's structure in 2001.

GE's ability to generate superior financial and stock market returns during a period when corporate diversification was deeply unpopular among investors and management thinkers was a tribute to the management systems that GE had developed and the resulting capabilities that enhanced the performance of each of GE's businesses. No other company has been such a fertile source of management innovation and management technique. After World War II, Chairman Ralph Cordiner, assisted by Peter Drucker, pioneered new approaches to the systematization of corporate management. Under Fred Borch (CEO 1963–72), GE established a system of strategic management based on strategic business units and portfolio analysis that became a model for most diversified corporations. Reg Jones (CEO 1972–81) integrated strategic with financial

FIGURE 18.1 GE's organization structure, 2001



SOURCE: BASED ON INFORMATION IN GENERAL ELECTRIC 10-K REPORT, 2001.

planning and showed how decentralized decision making could be reconciled with corporate identity and discipline. During the early years of the 21st century, Jack Welch's innovations – "work-out," "boundarylessness," decentralization, and the use of management development as a vehicle for cultural change – were continuing to disseminate through other companies.

Ultimately, what all GE's CEOs had been able to achieve was the creation of value out of GE's diversity. This had involved both reshaping GE's business portfolio and managing the relationships between the businesses to ensure that each of GE's businesses were more valuable within GE than they could be outside. Thus, under Jack Welch, GE shed several of its resource-based businesses (including mining) and slow growth, low-margin businesses such as consumer electronics and small household appliances. In building cross-business linkages, Welch developed GE's systems of management development, strategy formulation, and financial control and drove company-wide initiatives such as six sigma and best practice transfer. Immelt viewed GE's diversity as fundamental to its stability and strength. Like Welch, Immelt acknowledged that GE was diversified, but rejected vehemently the label "conglomerate":

> *Our businesses are closely integrated. They share leading-edge business initiatives, excellent financial disciplines, a tradition of sharing talent and best practices, and a culture whose cornerstone is absolute unyielding integrity. Without these powerful ties, we could actually merit the label "conglomerate" that people often inaccurately apply to us. That word just does not apply to GE.*[2]

At the basis of GE's integration and its capacity to create value within each of its businesses was its management systems and its shared organizational culture:

> *GE is a multi-business growth company bound together by common operating systems and initiatives, and a common culture with strong values. Because of these shared systems, processes and values, the whole of GE is greater than the sum of its parts.*[3]

Jeff Immelt

Jeffrey R. Immelt was appointed CEO of GE at the age of 44. He had previously been head of GE's Plastics business and, most recently, head of Medical Systems. He had an economics and applied math degree from Dartmouth and an MBA from Harvard. He claimed that his own experience of GE extended beyond his two decades with the firm – his father spent his entire career at GE. On being recruited from Harvard by GE in 1982, Immelt was identified as a "young high potential" whose progress was tracked by senior executives at GE. In 1987, Immelt was invited to attend the Executive Development Course at Crotonville, GE's management development center. This course was considered the gateway to the executive ranks of GE. At GE Appliances, GE Plastics, and GE Medical Systems, Immelt acquired a reputation for turning around troubled units, driving customer service, and exploiting new technologies. He also demonstrated the ability to motivate others – an aptitude that he had revealed as an offensive tackler for Dartmouth's football team in the 1970s.[4]

In December 1994, the GE board began to consider possible candidates to replace Jack Welch. Immelt was one among a list of some 20 GE executives submitted by Welch for board consideration. After five years of careful monitoring and assessment, the list had shrunk to three: Jim McNerney, Bob Nardelli, and Immelt.

Immelt's emergence at front-runner was principally the result of his outstanding success at GE Medical Systems, which he was appointed to lead in 1997. In addition to rigorous cost cutting and exceeding his budget forecasts, Immelt showed the ability to pick good managers, motivate them, pioneer new technologies, and expand the business. His strength was in energizing and motivating others: "He brought the life and energy that drives major growth," commented GE's head of HR.

Immelt had developed a personality and leadership style that contrasted sharply with those of Welch. However, they seemed to be highly effective in driving business performance. *Business Week* observed: "Where Welch ruled through intimidation and thrived as something of a cult figure, Immelt opts for the friendlier, regular-guy approach. He prefers to tease where Welch would taunt. Immelt likes to cheer people on rather than chew them out. That style has given him a very different aura within GE. He may not be a demigod, but it's his man-of-the-people nature that draws praise from the top ranks to the factory floor."[5] Immelt knew that his different style of leadership would have important implications for his role as CEO and the ways in which he would influence GE's strategy, structure, and systems. However, Immelt believed that the major changes that he would initiate at GE would be a result of the changing environment and the shifting priorities that GE faced.

GE's Post-2001 Business Environment

The remarkable growth in profits and stock market valuation that Welch had achieved was against a backdrop of an economy effused by optimism, confidence, and growth. The period 2000 to 2002 was salutary for the entire world economy – and for the US in particular. "The exuberance of the late 1990s and the inevitable downturn have created difficult times. Entire industries have collapsed, poor business models have been exposed, large companies have filed for bankruptcy and corporate credibility has been called into question," observed Immelt in his first letter to shareholders.[6]

In these circumstances, Immelt recognized that managing risk would be central to GE's long-term stability and development. From the outset, Immelt saw the need to balance GE's business portfolio to ensure cyclical stability:

> *We have four strong, powerful long cycle businesses: Power, Medical, Engines, and Transportation. These businesses are strong, number one, with multiple levers to grow earnings through technology and services. Our Power business has led the way through the past few years of gas turbine growth and, as that turbine market subsides, our Power business will thrive by servicing an installed base that has grown five-fold. Our Medical franchise has unlimited opportunities driven by world-class technology, favorable demographics, and global distribution. Our Aircraft Engines business gets even stronger every year as we continue to invest in new engine platforms and technology. The importance of these long-cycle businesses is that they give you steady earnings growth over time, with stable product cycles and rapid service growth.*
>
> *We also have a leadership franchise in our short-cycle businesses, like NBC, Plastics, Materials, Consumer, and Industrial businesses. These have been hardest hit by the downturn but so far in 2002 we are seeing encouraging signs of recovery . . .*
>
> *We have the world's most diversified financial services business, with consumer finance, mid-market financing, insurance, equipment management, and specialty*

segments. We're growing assets at GE Capital by 15 percent . . . The importance of GE Capital is that it can use GE's financial and industrial strength to generate superior returns over time . . .

The GE portfolio was put together for a purpose – to deliver earnings growth through every economic cycle. We're constantly managing these cycles in a business where the sum exceeds the parts.[7]

Sensitivity to risk also implied balance sheet conservatism and a reduced dependence on financial services – especially in volatile sectors such as insurance.

The discrediting of the 1990s' obsession with shareholder value maximization also had a profound impact on Immelt's priorities for GE. In all his communications to shareholders, Immelt was emphatic that the job of the CEO was not to manage the stock price but to manage the company for the long-term earnings growth that would drive the stock price: "We all want the stock to go up. But to do that we have to manage the company. In fact, the only way you can run GE is to believe that performance will ultimately drive the stock."[8] Apart from providing the underlying earnings growth, the only other influence that management could play was to offer transparency to investors through detailed financial reporting. If the annual report had to be "the size of the New York City phone book, that's life," commented Immelt.

Immelt also saw the need to redefine GE's relationship with its external communities in a post-Enron, post-bubble world. Long-term stability and prosperity required forging relationships of confidence and trust not just with investors, but also with customers, suppliers, government, and society at large. Social and environmental responsibility would become central themes in GE's relationships with the outside world.

However, the most crucial issue for GE, believed Immelt, was to identify the likely sources of profit in the future. Under Welch, the potential for value creation through cost reduction and the elimination of underperforming assets had probably been fully realized. Immelt would need to look to new areas. Top-line growth would have to be the driver of bottom-line returns. Yet, opportunities for value creation were likely to be meager: "I looked at the world post-9/11 and realized that over the next 10 or 20 years, there was not going to be much tailwind." The primary driver of such growth, figured Immelt, was organic growth – given the level of M&A activity and the huge volume of funds flowing into private equity funds, acquisitions could easily destroy shareholder value.

Among the opportunities for profitable organic growth, Immelt was drawn to four global trends:

- *Demography*. The world's population was aging rapidly. This would create opportunities for goods and services required by older people – healthcare services in particular.
- *Energy and the environment*. The conflicting forces of growing demand for energy and global warming threatened to be a dominant feature of the global business environment in the 21st century. The growing demand for efficient, environmentally sound energy production offered interesting opportunities for GE.
- *Technology*. Developments in electronics, biosciences, materials technology, and nanotechnology would offer the basis for new products and new industries.

- *Overseas markets*. The major growth opportunities of the future were likely to be outside the mature industrialized countries, where GE was most strongly positioned. In the emerging market world, the so-called BRIC countries – Brazil, Russia, India, and China – offered the greatest opportunities.

Given the likelihood of modest growth in the world economy throughout the decade, Immelt recognized that the key to GE's ability to create value would be its success in generating organic growth. The central challenge was to identify where the most promising opportunities for profitable growth would lie. While Immelt's first priority during his first year at GE was shoring up confidence within the company and among customers and investors, and in the aftermath the various external factors that GE was forced to contend with, he also devoted considerable time to developing his thinking concerning GE's long-term strategy.

GE's Growth Strategy

The central theme of Immelt's new strategy for GE was growth. In 2002, he committed GE to an organic growth rate of 8% per annum – under Welch organic growth had averaged 5% a year – and to "double digit" earnings growth. Throughout his first five years as chairman and CEO, Immelt maintained these goals – with a particular emphasis on the 8% organic growth target. Profits would grow faster than revenues, explained Immelt, because of reductions in general and administrative expense as a percentage of sales and higher margins resulting from new products and services. While every business faced unique growth opportunities, Immelt believed that profitable growth would be the result of a number of common factors (see exhibit 18.1).

Reshaping the Business Portfolio

To position GE for stronger growth, the company would need to exit slow growth business, reallocate resources to businesses where growth prospects were strong, and enter new businesses. Despite Immelt's focus on organic growth, repositioning would require acquisition. Immelt stressed that GE's acquisitions would be selective and focused: "We don't acquire companies just because we can. We don't go for unrelated fields. We acquire companies that give us new growth platforms where GE capability can improve financial performance and build shareholder value."[9]

Immelt's first five years, was a period of intense acquisition activity for GE. Between September 2001 and January 2007, GE's major acquisitions comprised:

- *Broadcasting and entertainment:* Telemundo and Bravo TV networks and Vivendi's Universal entertainment business.
- *Healthcare:* Amersham (UK diagnostics and medical equipment company), HPSC (financial services for medical and dental practices), Abbott Diagnostics (the world's leading provider of *in vitro* diagnostics).
- *Energy:* Enron's wind energy business, BHA Group Holdings (emission reduction equipment), ChevronTexaco's coal gasification business, AstroPower (solar energy products).
- *Commercial Finance:* Bay4 Capital (IT equipment leasing), CrossCountry Energy (gas pipelines), CitiCapital's Transportation Financial Services Group

EXHIBIT 18.1

GE's five key areas for business growth

GE is committed to achieving worldwide leadership in each of its businesses. To achieve that leadership, GE's ongoing business strategy centers on five key growth initiatives:

- Technical Leadership
- Services
- Customer Focus
- Growth Platforms
- Globalization

GE is committed to leadership in the "next generation" of **technology**. We are well-positioned to drive growth for the future with technical excellence in each business by developing a global technical capability, increasing new product growth, and investing in global research.

Services have grown from the traditional activities of parts replacement, overhauling and reconditioning machines to a larger and broader vision. Our new vision includes investing in our business and technology to improve the performance on our installed base and the way we actually service it. Through higher technology, we have the ability to go beyond servicing to reengineering the installed base. By doing so, we dramatically improve our customers' competitive positions. GE is in the midst of an incredible transformation brought on by the internet explosion. Our pursuit of digitization will rapidly change our dealings with our vendors, partners, and, most of all, our customers.

Customer focus is ensuring that everything we do provides value to our customers. It means creating a partnership that – combined with our expertise in financial, service, and technology industries – maximizes customer profitability and ensures quality.

A key GE strength is our ability to conceptualize the future, identify "unstoppable" trends, and develop new ways to grow. **Growth** is the initiative, the core competency we are building at GE.

Globalization is not only striving to grow revenues by selling goods and services in global markets. It also means globalizing every activity of the company, including the sourcing of raw materials, components, and products. Globalization especially means finding and attracting the unlimited pool of intellectual capital – the very best people – from all around the globe.

Sources: www.ge.com

(Citigroup's commercial trucking lending business), IKON Office Systems (Transamerica Corporation's commercial finance business).

- *Consumer Finance:* DeltaBank (a Russian consumer bank), Wizard Home Loans (Australia), credit card operations of Dillard's.
- *Infrastructure:* InVision Technologies (explosives detections systems), Ionics (water purification and water treatment), Edwards Systems Technology (fire detection), Interlogix (security systems), BetzDearborn (water services), Smiths Aerospace (a leading supplier of integrated systems for aircraft and a subsidiary of UK company Smiths Industries).

TABLE 18.2 GE's business portfolio, 2004

Growth engines	
COMMERCIAL FINANCE	A range of financial products and services for businesses, especially in the mid-market segment. Also capital asset leasing, real-estate finance, and commercial loans.
CONSUMER FINANCE	Credit services for consumers and retailers, including private label credit cards, personal loans, bank cards, real estate and home equity loans, purchasing cards, and credit insurance.
ENERGY	Comprehensive solutions for oil and gas, traditional, and renewable power generation, and energy management.
HEALTHCARE	Diagnostic and interventional medical imaging, information, and services technology.
INFRASTRUCTURE	Protection and productivity solutions for water, safety, plant automation, and sensing applications.
NBC	NBC TV network, 29 local US TV stations, cable channels (CNBC, Bravo, MSNBC), Telemundo; also Vivendi Universal Entertainment.
TRANSPORTATION	Comprises Aircraft Engines and Rail.
Cash generators	
ADVANCED MATERIALS	Provides material solutions, including engineering thermoplastics, silicon-based products, fused quartz, and ceramics.
CONSUMER & INDUSTRIAL	Appliances, lighting products, industrial equipment, and systems and services.
EQUIPMENT SERVICES	Products and services that help medium and large businesses manage, operate, and finance business equipment, including: operating leases, loans, sales, and transportation and management services.
INSURANCE	Business insurance includes insurance and reinsurance products. Consumer insurance that helps consumers create and preserve wealth, protect assets, and enhance lifestyles.

SOURCE: GENERAL ELECTRIC 10-K REPORT, 2004.

In 2004, GE reorganized its 13 businesses into 11 and distinguished two types of business: "growth engines" and "cash generators" (see table 18.2).

At the same time, Immelt also saw value in a number of GE's slower growing businesses – the key was their potential to generate cash. For example, many analysts believed that appliances and lighting would be early candidates for divestment. However, while acknowledging that their growth was low, Immelt confirmed that, "We'll stay in those businesses. They both return their cost of capital."[10] GE's major divestment during this period was the major part of its insurance business. In addition, its plastics division was also slated for disposal.

A key theme in Immelt's reshaping of GE's business portfolio towards higher growth was the creation of new "growth platforms." Growth platforms could be extensions of existing businesses or they could be entirely new areas of business. For example, GE's expansion into Spanish language broadcasting (spearheaded by the acquisition of Telemundo) was an example of one of GE's businesses (NBC) expanding into a new, fast-growing market segment. Other growth platforms could be entirely new businesses that drew upon some of GE's existing strengths. For example, renewable energy and security services were entirely new areas of business for GE.

Identifying new growth platforms was established as a central strategic challenge for GE's businesses. The approach involved the analysis and segmentation of markets to identify high-growth segments that offered the potential for attractive returns, then to use a small acquisition as a basis for deploying GE's financial, technical and managerial resources to build a leading position.

Technology

Immelt remarked on the fact that he represented a different generation from Jack Welch, and that his generation had a much closer affinity for technology. He identified technology as a major driver of GE's future growth and emphasized the need to speed the diffusion of new technologies within GE and turn the corporate R&D center into an intellectual hothouse. His commitment to technology was signaled by expanding GE's R&D budgets. This began with a $100 million upgrade to GE's corporate R&D center in Niskayuna, NY, and was followed by the construction of new R&D facilities in Shanghai and Munich, Germany. By the end of 2006, GE Global Research had over 2,500 researchers working in GE research centers in New York, Bangalore, Shanghai, and Munich.

Immelt's emphasis on technology reflected his belief that the primary driver of sales was great products: "You can be six sigma, you can do great delivery, you can be great in China, you can do everything else well – but if you don't have a good product, you're not going to sell much."[11] Increasing, product quality and product innovation became a critical performance indicator for all of GE's businesses.

Customer Focus

A key feature of Immelt's career at GE was the extent of his customer orientation and the amount of time he spent with customers, building relationships with them and working on their problems. Looking ahead, Immelt saw GE using IT and redesigned processes to become increasingly customer focused. Soon after taking over as CEO, Immelt emphasized the primacy of customer focus: "We're dramatically changing our resource base from providing support to creating value. Every business has functions that add high value by driving growth. These are the functions that deal with the customer, create new products, sell, manufacture, manage the money, and drive controllership. Call that the front room. Every business has back-room support functions that sometimes are so large and bureaucratic they create a drain on the system and keep us from meeting our customers' needs and keep us from growing. So we're going to take more of the back-room resources and put them in the front room – more sales people, more engineers, more product designers. We're changing the shape of this company and we're doing it during a recession."[12]

A key aspect of Immelt's creation of a customer-driven company was a revitalization of GE's marketing function. "Marketing was the place where washed-up salespeople went."[13] Upgrading GE's marketing was achieved through re-creation of GE's

Advanced Marketing Seminar, establishing a, Experienced Commercial Leadership Program, and the requirement that every business appoint a VP-level head of marketing. Most important was the creation of GE's Commercial Council that brought together GE's leading sales and marketing leaders to develop new business ideas, to transfer best practices, and instill a commercial culture within GE. A key initiative was "At the Customer, For the Customer," a program that deployed six sigma in marketing, sales, and customer relations activities, applied GE's six sigma methodologies to customers' own businesses, and used new metrics to track customer satisfaction and customer attitudes.

An important outcome of GE's greater customer focus would be the ability to better meet customer needs through bundling products with support services and combining product and service offerings from different businesses. Every business was encouraged to create customer value through bundling products with a variety of customer service offerings, including technical services, financial services, training, and the like. Across businesses, enterprise selling was given greater prominence. For example, in the case of a new hospital development, there might be opportunities not just for medical equipment, but also for lighting, turbines, and other GE businesses as well. To exploit new opportunities from that cut across GE's existing divisional structure, GE began to create cross-business, high-visibility marketing campaigns. "Ecomagination" emerged from GE's 2004 strategic planning process as a way for GE to better capitalize on greater environmental awareness through combining initiatives in emissions reduction, energy efficiency, water supply, and scarcity management. The ecomagination proposal then went to the Commercial Council, which planned an initiative involving 17 products.[14]

Increasing GE's capacity to better serve customers with integrated solutions was a key consideration in Immelt's 2005 reorganization: "In 2005, we restructured the Company into six businesses focused on the broad markets we serve: Infrastructure, Commercial Finance, Consumer Finance, Healthcare, NBC Universal, and Industrial. Each business has scale, market leadership, and superior customer offerings."[15] Figure 18.2 shows GE's organizational structure at the beginning of 2007.

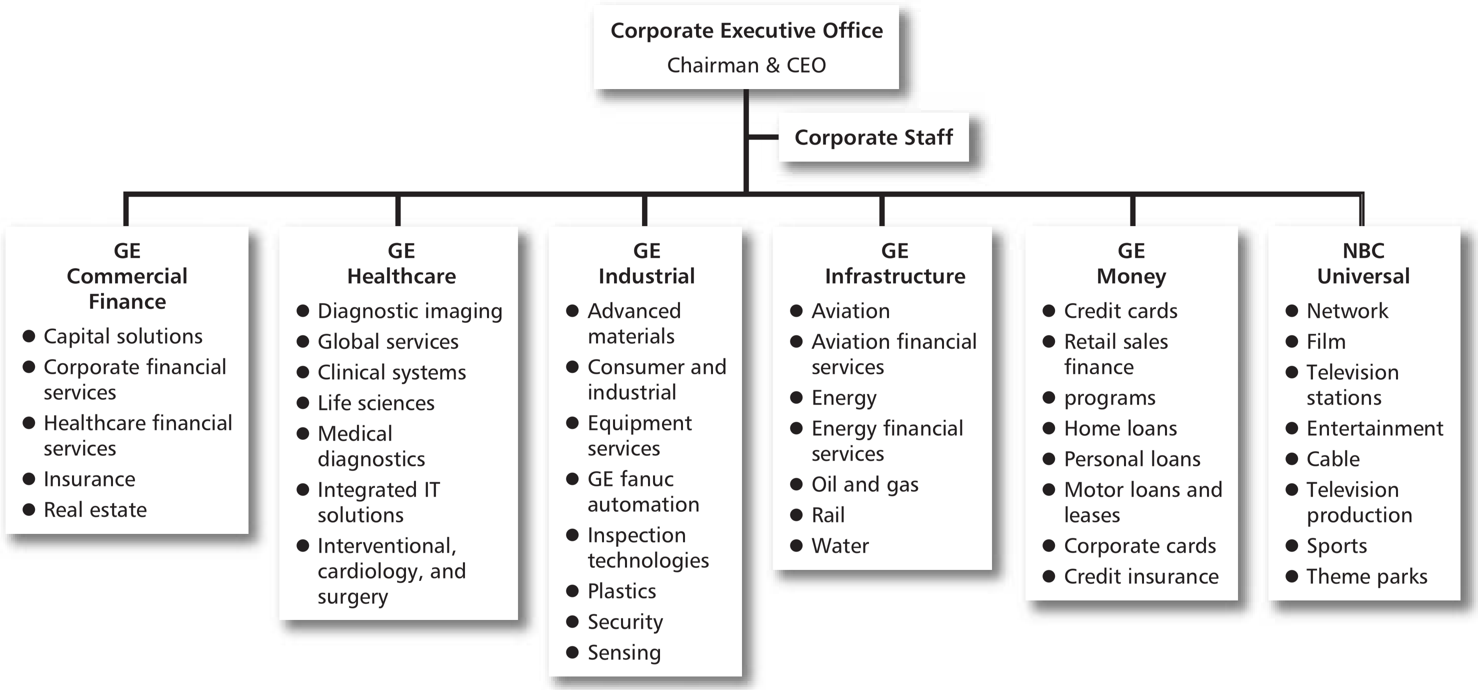
Immelt believed that some of the biggest payoffs from greater customer orientation would come from GE's increased success in international markets. This would involve more local product development and an increased emphasis on truly aligning products and services to meet local market needs rather than simply adapting product features. In terms of exploiting opportunities in major growth markets such as India and China, Immelt saw the need to go from a "defeaturing" mindset (i.e. providing a stripped-down American product) to "customer optimization" mindset.

Exploiting global opportunities would also involve globalizing GE's own talent base. Under Immelt's leadership, GE sought to internationalize its workforce – including core corporate functions. By 2006, among 400 younger members of GE's audit staff, about 60 were Indian.

Changing the GE Management Model

The management model that was in place throughout Immelt's years at GE had been developed and refined by his mentor, Jack Welch. Immelt respected GE's management systems and process and recognized that many of them were so deeply embedded within GE's culture they were parts of GE's identity and the way it viewed the

FIGURE 18.2 GE's organization structure: major businesses and divisions, 2007



world. For example, metrics are central to GE's management processes. GE was a performance-driven company and performance was driven by quantitative targets that allowed focus and accountability. "Nothing happens in this company without an output metric," observed Immelt. All of Immelt's strategic initiatives – from the 8% organic growth target to productivity improvements, reductions in overhead costs and six sigma – were linked to precise quantitative targets. In 2005 GE standardized its customer satisfaction metrics, focusing on "net promoter scores" (the percentage of customers who would recommend GE to a friend, minus the percentage who wouldn't).

There were also areas where the new growth strategy would require management change. As with Jack Welch, Immelt saw his most important task as helping to develop GE's managerial talent. To implement his growth strategy required that each of GE's employees internalized it as part of his or her personal mission. This required not only constant communication and reinforcement from the CEO, but also the skills and aptitudes to become "growth leaders." A benchmarking exercise on 15 companies with sustained records of revenue growth (e.g. Toyota and Dell) sought to identify the characteristics of their leading managers. The result was the categorization of five "growth traits." These included: external focus, imagination and creativity, decisiveness and clear thinking ability, inclusiveness, and deep domain expertise.

These growth traits became part of GE's annual HR review, with each of GE's top 5,000 people rated on each of the five traits and the results of the assessment built into their subsequent development plans. Career planning also changed: because of the importance of domain expertise, managers were being required to stay longer in each job.

A key challenge was to reconcile GE's famous obsession with profitability and cost control with the risk taking needed to exploit new growth opportunities. "Imagination breakthroughs" were promising projects for new business creation that had the potential to create $100 million in sales over a three-year period. By mid-2006, some 100 imagination breakthroughs had been identified and individually approved by Immelt. Once approved, these projects were protected from normal budget pressures. About half involved new products and the other half involved changing commercial structure. Immelt saw these imagination breakthroughs as a means of focusing attention on the goal of business creation and development. Given that some of these projects involved substantial levels of investment (GE's hybrid locomotive, for example, would require tens of millions of dollars), by lifting these projects from the business level to the corporate level, it took pressure off the business heads. One problem, observed Immelt, was that GE did not possess sufficient product managers and systems engineers to put in charge of high-visibility programs involving substantial risks and substantial possible returns.

Common to most of the organizational changes initiated by Immelt was the desire to create value through the many parts of GE working together more effectively to make major achievements. "Working at GE is the art of thinking and playing big; our managers have to work cross-function, cross-region, cross-company. And we have to be about big purposes."[16]

By 2005, Immelt developed his vision for growth and its attainment into a six-part process that was disseminated throughout the organization and became a key part of Immelt's communication to GE's external constituencies (see figure 18.3).

FIGURE 18.3 GE's six-part growth process

Growth is the GE initiative. After growing historically at an average of 5% revenue growth, in 2004 we launched this initiative to achieve 8% organic growth per year. This is about twice the rate of our industrial and financial peers. We want to make organic growth a process that is predictable and reliable.

SOURCE: GENERAL ELECTRIC 2005 ANNUAL REPORT, P. 8

Looking Ahead

Immelt's strategy for GE required the development of new capabilities. At the most general level, this was the capacity to grow. This required the nurturing of capabilities in relation to commercially relevant technical research, customer relations, new product ideas, and the creation of novel bundles of products and services. Developing these capabilities meant reconciling GE's existing operational, financial, and strategic capabilities with the new priorities in relation to marketing, new product development, and business development. Using well-known GE tools of metrics management and management development, Immelt was demonstrating considerable progress in implementing the new strategy. Indeed, all of GE's major businesses – with the exception of NBC Universal, which was experiencing declining audience rankings – were reporting strong growth in both sales and profits (see table 18.3). A critical issue, however, was whether the new strategy would deliver the kind of long-run performance that Immelt had targeted. As Harvard Business School professor Clay Christensen observed:

TABLE 18.3 General Electric: segment performance, 2001–2006

	($ millions)					
	2006	2005	2004	2003	2002	2001
Revenues						
Infrastructure	47,429	41,803	37,373	36,569	40,119	36,419
Industrial	33,494	32,631	30,722	24,988	26,154	26,101
Healthcare	16,562	15,153	13,456	10,198	8,955	8,409
NBC Universal	16,188	14,689	12,886	6,871	7,149	5,769
Commercial Finance	23,792	20,646	19,524	16,927	15,688	14,610
Consumer Finance	21,759	19,416	15,734	12,845	10,266	9,508
Profit						
Infrastructure	9,040	7,769	6,797	7,362	9,178	7,869
Industrial	2,694	2,559	1,833	1,385	1,837	2,642
Healthcare	3,143	2,665	2,286	1,701	1,546	1,498
NBC Universal	2,919	3,092	2,558	1,998	1,658	1,408
Commercial Finance	5,028	4,290	3,570	2,907	2,170	1,784
Consumer Finance	3,507	3,050	2,520	2,161	1,799	1,602

	Fixed assets				*Additions to fixed assets*
	2006	2005	2004	2003	2003–5
Infrastructure	94,113	89,555	82,798	76,185	11,666
Industrial	43,216	41,556	42,040	40,359	10,683
Healthcare	28,561	24,661	24,871	10,816	2,339
NBC Universal	30,500	31,196	34,206	11,619	1,585
Commercial Finance	198,117	190,546	184,388	172,471	15,140
Consumer Finance	160,734	158,829	151,255	106,530	597

SOURCE: GENERAL ELECTRIC 10-K REPORTS.

The major growth engine at GE has been GE Capital . . . But the fact that it's been a great growth engine in the past means it likely won't be in the future. That's my biggest worry for GE. I don't see a new engine of growth that's comparable to what they had in the past. One challenge is that the bigger a business gets, the less and less interest it has in small opportunities. And all the big growth markets of tomorrow are small today.[17]

Other concerns related to the ability of GE's organizational structure and management systems to effectively execute the growth strategy. Developing new products, businesses, and customer solutions required new and more complex cross-business and cross-functional coordination within GE. The new performance requirements were being built on top of GE's existing commitments to efficiency, quality, and financial performance. Could this added complexity be borne by a company that was steadily growing larger and encompassing a widening portfolio of businesses and products? Management research pointed to the fact that most companies pursuing the combination of innovation and efficiency in fast-moving business environments were forced to become less diverse in order to maintain outstanding performance. Among the other top-20 companies on *Fortune*'s "most admired" list in 2006, Procter & Gamble, Johnson & Johnson, Berkshire Hathaway, and 3M were widely diversified – the other 15 were much more specialized, with most being single business companies (FedEx, Southwest Airlines, Dell, Toyota, Wal-Mart, UPS, Home Depot, Costco). As Immelt made clear to his top managers, GE was entering uncharted waters: "The business book that can help you hasn't been written yet." While Immelt was extolling the benefits of GE's diversity as a source of strength and opportunity, other companies were moving in the opposite direction. At the beginning of 2007, Altria announced the sale of its Kraft food business and its refocusing around its core Philip Morris tobacco business, American Standard announced it was splitting into three separate companies, while Tyco was in the process of doing the same. As Chris Zook, head of global strategy at Bain, commented: "The conglomerates are dead. With some rare exceptions, the conglomerates' business model belongs to the past and is unlikely to reappear."[18]

Notes

1 "What Makes GE Great?" *Fortune*, March 6, 2006, pp. 90–6.
2 Jeff Immelt's 2002 Annual Report to Share Owners, Waukesha, Wisconsin, April 24, 2002, pp. 4–5.
3 Letter to Shareholders, General Electric Annual Report 2003.
4 "Running the house that Jack built," *Business Week*, October 2, 2000.
5 "The days of Welch and roses," *Business Week*, April 29, 2002.
6 Letter to Shareholders, General Electric Annual Report 2001.
7 Jeff Immelt, 2002 Annual Report to Share Owners, op. cit.
8 Jeff Immelt, Address to shareholders, Annual Share Owners' Meeting, Philadelphia, April 26, 2006.
9 Jeff Immelt, 2002 Annual Report to Share Owners, op. cit.
10 "This is just about the best gig you can have," *Business Week*, September 5, 2001.
11 "Growth as a Process. An Interview with Jeffrey R. Immelt," *Harvard Business Review*, June 2006.
12 Jeff Immelt, 2002 Annual Report to Share Owners, op. cit., p. 8.
13 "Growth as a Process. An Interview with Jeffrey R. Immelt," op. cit.
14 Ibid.
15 Letter to Shareholders, General Electric 2005 Annual Report.
16 "Growth as a Process. An Interview with Jeffrey R. Immelt," op. cit.
17 "The GE Mystique," *Fortune*, March 6, 2006, p. 100.
18 "Less than the Sum of the Parts? Decline Sets in at the Conglomerate," *Financial Times*, February 5, 2007, p. 9.