case eighteen

Jeff Immelt at General Electric, 2001–2006

TEACHING NOTE

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■ SYNOPSIS ■

Jeff Immelt has the daunting task of following Jack Welch ("living legend," "greatest CEO of the twentieth century") at a time when GE is facing a combination of challenges: sharply reduced demand in several key businesses (notably turbines and jet engines), its financial reporting is subject to increasing scrutiny, and the financial strength and stability of GE Capital is being questioned.

The case offers an opportunity to explore the potential for creating corporate value in a highly diversified company that appears to be performing at the top of its game. After two decades of acquisitions, divestments, restructuring, cost cutting, and rebuilding of systems and processes, where does GE go next? How can Jeff Immelt take GE to the next level; and what would a "next level" conceivably look like?

On taking the helm at GE, Immelt takes little time in showing that he does have a strategy, and plans for implementing that strategy. During the first decade of the twenty-first century, GE is facing a different set of challenges from those of the 1990s – the opportunities for creating value are different. Equally important, Immelt has a different skill set and management style than Welch.

The case outlines the changes that Immelt introduced between September 2001 and the end of 2006. These include a spate of acquisitions and divestments, a reconceptualization of GE's business portfolio, novel approaches to creating and exploiting customer value, a series of organizational restructurings, and changes in GE's management processes.

The case uses the experiences of Jeff Immelt at GE to inquire into the potential for creating value in the diversified corporation – especially the challenges of exploiting linkages across businesses – and looks into the organizational structures and management processes that are conducive to such value creation.

■ TEACHING OBJECTIVES ■

The case asks how and under what circumstances a diversified corporation creates value for its constituent businesses. This raises some fundamental issues concerning the relative roles of firms and markets in coordinating different business activities. The prevailing wisdom has been that, in an era of turbulent economic conditions and efficient markets, the diversified firm is at a disadvantage to specialized firms that transact through markets for their inputs and are free of the costs and inertia of the corporate infrastructure of the diversified firm. GE's success forces students to re-evaluate this conventional wisdom and to consider more circumspectly the potential for corporate management systems to contribute to business-level performance.

The case reveals that it is impossible to draw general conclusions about the performance of diversified relative to specialized companies. Yes, fast-moving business environments and increasing efficiency of input markets do favor specialized over diversified firms, but much depends upon the effectiveness of corporate management in individual companies. GE's systems for allocating resources across its various businesses are more informed and flexible than external factor markets.

At the heart of the changes introduced by Immelt is an approach to value creation that involves the identification of new sources of synergy for GE – in particular, new approaches to bundling products and services into broad-based "customer solutions." Exploiting these synergies from bundling requires more flexible integration across GE's many businesses. This raises complex issues concerning the kinds of organizational structures and management systems needed for large-scale, flexible integration. This draws upon some of the themes discussed in Chapter 17 of *Contemporary Strategy Analysis*, “Current Trends in Strategic Management.”

The case also addresses issues of leadership. How important can a single individual be in determining the performance of a corporation employing 300,000 people? To what extent can a corporation’s strategy, structure, and systems be viewed as an extension of the vision and personality of its CEO? At GE, the personality, beliefs, and emotions of the CEO were not limited to personal authority and inspiration, they became embodied within the management systems and practices of the company.

■ POSITION IN THE COURSE ■

This is a case in corporate strategy that focuses on the strategic management of the multibusiness firm. It addresses a number of emerging issues in strategic management – hence, it can be used to close up a core strategic management course.

■ ASSIGNMENT QUESTIONS ■

1. What were the principal strategic and organizational changes introduced by Immelt at GE?
2. Assess the potential for these changes to put GE on a track of increased profit growth and increased shareholder return?
3. Are there alternative corporate strategies that Immelt should consider? In particular, should Immelt consider breaking up GE (the *Wall Street Journal* reported increased pressure for a breakup: “For GE, No Lack of Ideas,” May 9, 2007), or should he initiate a new drive for growth through acquisition?
4. How great are the implementation problems of Immelt’s strategy? To what extent does Immelt need to develop a new approach to organizational structure and management systems?

■ READING ■

R. M. Grant, *Contemporary Strategy Analysis* (6th edn), Blackwell Publishing, 2008, Chapter 16. See also Chapter 17 on “Current Trends in Strategic Management.”

■ CASE ANALYSIS AND DISCUSSION ■

Strategic and organizational changes introduced by Immelt

These include:

- Changes in the business portfolio;
- New approaches to competitive advantage and value creation;
- Changes in organizational structure;
- Changes in management systems.

I typically begin with new approaches to competitive advantage and value creation since this seems to be fundamental to Immelt’s approach.

Immelt’s key strategic commitment is to organic revenue growth – he targeted 8% each year, an ambitious goal for a company as big and mature as GE. Exhibit 18.1 in the casebook outlines the five key components of this growth strategy. We may distinguish between the *where to compete* and *how to compete* dimensions of the strategy.

In terms of *how to compete* (i.e. the approaches to competitive advantage and value creation), Immelt’s focus is on technology and customer relations. Both are significant departures from Welch’s emphasis. Although Welch acknowledged GE’s technological strengths and the importance of serving customers, neither provided key focus points for his strategy. Under Immelt, excellence in both has been identified as the primary basis for extending GE’s competitive advantage in the markets it serves. This emphasis is surprising for a huge conglomerate like GE – typically technology-based companies are focused around a core of technologies (Intel, Microsoft, Glaxo), while customer-focused companies tend to concentrate on particular types of market (P&G, PepsiCo, Mandarin Hotels); conglomerates typically focus on their corporate systems. A key aspect of GE’s customer focus is its emphasis on product bundling: serving customer needs by bundling products (both goods and services) across GE’s different businesses.

In terms of *where to compete* (i.e. the business portfolio), Immelt's challenge is to identify growth opportunities that can possibly rival the huge growth that GE achieved in financial services during the 1990s. However, Immelt's quest for new sources of competitive advantage point to several areas of opportunity:

- *New businesses*. The "growth engines" established in the 2004 reorganization point to a number of new business areas: in Infrastructure, the provision of security solutions (products and services to protect against crime and other types of attack); in Energy, products and services for renewable energy production and supply; in Healthcare, diagnostic equipment and financial services.
- *International expansion*. Immelt promises to expand on Welch's efforts to extend GE's presence into the growth regions of the world. A notable example is the expansion of GE's TV and entertainment business from its predominantly US base into several other countries – including Spanish language productions and broadcasting. Immelt is also inaugurating new thinking about GE's adaptation to overseas markets (e.g. from "de-featuring" to "customer optimization").

Changes in organizational structure have primarily involved the amalgamation of GE's divisional structure into a smaller number of broader business sectors. (Compare figure 18.1 with figure 18.2 in the casebook.) More broadly defined businesses facilitated the bundling of products and services and the creation of new growth opportunities. These businesses also permitted a stronger customer orientation. On the basis of distinct customer differences, GE Capital was split between GE Money (personal financial services) and GE Comerica Finance.

However, these changes refer only to the overall formal structure. Some of the most important and interesting features of organizational change at GE include:

- Strengthening certain functions – especially marketing.
- New project management: "imagination breakthroughs" protected from standard appraisal procedures.
- Increased cross-business coordination to develop and exploit new opportunities for bundling products and services and sharing resources and capabilities.

Behind these more tangible organizational changes were a number of initiatives designed to shift priorities, reconfigure incentives, and change behaviors. For example, GE's management appraisal systems was adapted to include "growth traits," customer satisfaction measures were built into GE's performance management processes, and horizontal, cross-functional, and cross-business cooperation was fostered.

Assessing Immelt's strategic and organizational changes

The merits of the strategy are:

- Fit with changes in the business environment. Increased global competition points to the need to exploit strengths of the advanced, industrialized world in technology and customer service and to exploit growth opportunities in Asia and other rapidly growing parts of the world. The areas targeted (e.g. security solutions, energy solutions, entertainment) all appear to be areas of business with attractive growth and profit prospects.
- The strategy appears to fit with GE's resources and capabilities. Because of GE's diversity and the range of technologies it encompasses, the numbers and depth of its customer relationships are immense. The challenge is to integrate and leverage this multiplicity. Because GE has done such an effective job of increasing performance along particular dimensions, such as cost efficiency and quality, extending its competitive advantages inevitably means pursuing more sophisticated and complex sources of advantage – it is here where the new emphasis on technology, customer focus, and bundling fits in.
- The strategy exhibits considerable internal consistency. The changes in strategy, organizational structure, management systems, and values and behaviors all seem to fit well with one another – they also appear to fit well with Immelt's beliefs and management style.

Some of the key challenges relate to Immelt's ability to put in place the structures and systems that are needed in order to execute the strategy effectively. As Chapter 17 on "Current Trends in Strategic Management" observes – see, in particular, the sections on "Seeking More Complex Sources of Competitive Advantage" (p. 449) and "Redesigning the Organization" (pp. 454–8) – Immelt's growth platforms require coordinating in new and more complex ways. Putting together products and services from different divisions to meet new customer needs and exploit new market opportunities requires cross-business integration that reduces the independence and decentralization of decision making within each separate business. Reconciling entrepreneurial flexibility with complex patterns of cross-business integration represents a major challenge to GE.

Increased cross-business collaboration, and the greater complexity of communication and coordination that this entails, typically means that companies must make compensating reductions in complexity elsewhere. This may mean that Immelt's growth strategy and the quest for new growth platforms might require GE to narrow its business scope in other directions through divesting some of its existing businesses.

Should Immelt consider breaking up GE?

Once we begin considering candidates for possible divestment, this raises the bigger question of whether a more radical breakup of GE is desirable. For several years different analysts and commentators have toyed with the possibility of breaking up GE. We do not have the data for estimating breakup value, but we can point to a few strategic considerations. For a hundred years, GE has developed as a single corporation. While the content of its business portfolio has changed, it has continually developed its corporate systems and its corporate management systems. In terms of strategic management, corporate management, management development, and human resource management, GE is a one of the world's preeminent companies. Breaking up GE could mean that these same capabilities are preserved, nourished, and recreated in each of the companies that made up GE. However, there is a risk that, to the extent that these capabilities are founded on the GE culture and tradition, without the unifying identity of GE, they may either metamorphosize or whither.

■ UPDATING THE CASE ■

For current information on GE, go to General Electric's website: www.ge.com.