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General Electric's Corporate Strategy

Like the premature obituary of writer Mark Twain, reports of the death of the conglomerate are often exaggerated. Diversified companies, straddling multiple industries, or even just different parts of one large sector, remain a dominant, if not always fashionable, feature of stock markets from the U.S. to continental Europe and Asia. But a new backlash against conglomerates suggests that a more lasting shift in investor preferences may be taking place—driven in part by the growing influence of hedge funds and private equity houses. In public markets, big has rarely appeared less beautiful.1

Through the 1990s and 2000s, large diversified firms, often called conglomerates, largely fell out of favor with investors. Arguments against conglomerates ranged from complexity in management to the difficulties that analysts and investors had in understanding their operations. More recently, conglomerates have regained some respect. As the largest of the U.S. diversified multinational firms, General Electric Company (GE), with over 300,000 employees, generated a variety of opinions, such as:

Increasingly restive General Electric Co. shareholders, frustrated with six years of meager returns, are pressuring Chairman Jeffrey Immelt to break up the conglomerate. But some shareholders and analysts argue that GE's sprawling businesses are better off together than apart. GE's big umbrella, these investors say, can balance differing product and economic cycles, while helping all its businesses financially. And that would boost the stock price over the longer term.

"The main appeal of GE is its diversification," says Mark Demos, portfolio manager at Fifth Third Asset Management, which owns 12.6 million GE shares. He says this isn't the time to break up the company, because global economic trends and investor sentiment are moving toward bigger, more international companies such as GE.[2]

GE's Background

GE's roots go back to 1890 when Thomas Edison established Edison General Electric Company. In 1892, Edison General Electric Company merged with Thomson-Houston Company. The new company was called General Electric Company. Several of Edison's early products were still part of GE in 2008, including lighting, transportation, industrial products, power transmission, and medical equipment. GE is the only company listed in the Dow Jones Industrial Index today that was also included in the original index in 1896.

Over the century after its founding, GE made hundreds of acquisitions and expanded far beyond its original businesses. By 1980, GE products ranged from plastics, consumer electronics, and nuclear reactors, to jet engines. In 1981, Jack Welch became CEO and radically restructured the company. Welch urged his employees to be "better than the best" and challenged each of the diverse GE businesses to be the number one or number two competitor or disengage. Between 1981 and 1990, GE divested more than 200 businesses and made over 370 acquisitions. Acquisitions included NBC, Kidder Peabody, Thomson/CGR medical equipment, Borg-Warner Chemicals, Penske Leasing, Tungsram light bulbs, and Polaris aircraft leasing. Businesses sold included small appliances, consumer electronics, RCA Records, outdoor lawn equipment, oil exploration and refining, car auctions, and mining. Welch also slashed layers of management and began a series of internal initiatives, many of which set the standard for business practice around the world, such as Six Sigma. In 1980, the year before Welch became CEO, GE recorded revenue of $26.8 billion; in 2000, the year before Welch retired, revenue was nearly $130 billion.

In 2001, Jeff Immelt became CEO and was still in the job in 2014. According to Immelt, the job of the CEO is to "pick initiatives and businesses to get involved in, shape the company culture, pick great people. Strategy is about the creation and allocation of right resources, to the right place, in the right way over time. Whether you call it allocating capital resources or picking the initiatives and businesses to get involved in, the heart of strategy is choices around where you want to play and how you want to win over whatever timeframe is important to you."[3]

Among Immelt's early goals were to strengthen GE's global presence and create a more collaborative culture. Under Immelt, GE sold its insurance and plastics businesses, and its entertainment business, NBC Universal, and strengthened its presence in healthcare, financial services, and oil and gas. In 2014, GE was actively trying to sell its appliance business, one of the last of GE's BTC businesses.

GE's Strategy

GE organized its operations in seven main businesses: power and water, oil and gas, energy management, aviation, healthcare, transportation, home and business solutions, and GE Capital. Exhibit 1 provides a summary of each of the businesses. The exhibit shows that each of the businesses employed tens of thousands of employees and was a highly diversified business in its own right. If spun off from GE, the businesses would be among the largest and most profitable companies in their respective sectors.

Given the diversity of businesses, what was the strategic logic that held the company together? The CEO's letter to the shareholders in the 2003 Annual Report stated:

> *We are another year along with our five-initiative strategy to create high-margin, capital-efficient growth:*
>
> - ***Technical Leadership:*** *Technology and innovation are at the heart of our initiatives. Technical leadership produces high-margin products, wins competitive battles, and creates new markets.*
> - ***Services****: Technical leadership has created a massive installed base of more than 100,000 long-lived GE jet engines, power turbines, locomotives, and medical devices for which we can provide high-margin services for decades.*
> - ***Customer Focus****: One of our successes is in "vertical selling," the practice of aligning our offerings in four industries that are critical to GE: healthcare, energy, transportation, and retail. They represent $47 billion of industrial revenues and $169 billion of financial services assets. GE brings a unique array of capabilities to these industries, including products, services, information, and financing. On this broad foundation, we can build deeper partnerships with our customers.*
> - ***Globalization****: We can take every growth idea and multiply its effectiveness through globalization. Globalization is a GE core competency. We have made and sold products outside the U.S. for 100 years, and one-third of our leadership team is global. Our global revenues were almost $61 billion in 2003, up 14%, and should grow 15% in 2004. We succeed because we recognize one central fact: global growth requires more than simply shipping products. You must be equally committed to developing capabilities and relationships in the markets where you want to succeed.*
> - ***Growth Platforms****: A key GE strength is our ability to conceptualize the future, identify "unstoppable" trends and develop new ways to grow….We follow a disciplined process for growth. First, we segment broad markets and launch with a small platform acquisition. Then we transform the business model using our growth initiatives, such as services and globalization. Finally, we apply our financial strength to invest in organic growth or acquisitions. We can get big quickly while generating solid returns.*

The CEO's letter to the shareholders in the 2006 Annual Report included:

> *Our strategies create strengths and capabilities, which, in turn, drive competitive advantage. The consistent execution of the same strategic principles year after year provides the foundation to invest and deliver.*
>
> *We expect them [the businesses] to be industry leaders in market share, value, and profitability. We want businesses where we can bring the totality of the Company—products, services, information, and financing—to capitalize on the growth trends I mentioned earlier. We run these businesses with common finance and human resource processes. We have one leadership development foundation*

and one global research infrastructure to achieve excellent results with a common culture. We have a few Company-wide Councils, like Services, so we can share ideas with minimum bureaucracy… when we find that a business cannot meet our financial goals or could be run better outside GE, we will exit that business rather than erode shareowner value.

Our "average hold" of a business is measured in decades. We do not "flip" assets. We are builders of businesses. This takes people who believe in teamwork and have pride in workmanship. We have a team that is focused on building a company that has enduring value and makes the world a better place. Our culture matches the expectations of long-term investors.

In 2008, GE described itself as a reliable growth company. At GE's Annual Leadership Meeting in early 2008, Jeff Immelt described four strategic principles to achieve growth:

1. ***Invest in Leadership Businesses****: We have spent the last six years assembling a portfolio to drive growth in today's more interconnected global economy. We will continue to refine the mix to capture market opportunities that ensure our portfolio keeps generating faster growth, has more balance, and creates a stronger competitive advantage. In 2008, we will continue to drive results from our Growth as a Process initiative by:*
    - *Sustaining technical leadership*
    - *Accelerating globalization*
    - *Driving services growth*
    - *Bringing lean and enterprise to customers*
    - *Building adjacencies to the installed base*

2. ***Execution and Financial Discipline****: This year we are formalizing a process around operational excellence that will help us to grow margins and returns in a tough environment. Our process is being led by a new Operating Council and shared metrics to measure results.*

3. ***Growth as a Process****: Our focus on Growth as a Process continues to enable us to deliver organic revenue growth of 2-3x GDP. Our process is accelerating, it's visible, and it creates high confidence for investors. In 2006 and 2007, we achieved 9% organic revenue growth and, in 2008, we expect to maintain this level of growth.*

4. ***Great People****: GE has always attracted great talent. Converting talent into a strategic advantage means developing and retaining that talent so that we have the best leadership team. In 2008, we will do this by focusing on core capabilities of LIG [Leadership Innovation and Growth], accessing local knowledge for global growth, and leveraging our deep expertise.*

In recent years, GE talked more about organic growth. According to Jeff Immelt:

The focus on organic growth is also going to require people to stay in the same jobs longer. You can't plant a tree and see it grow in a year. This is very countercultural in an organization where building a career has always meant packing your bags every 18 months. Going forward, you're still going to have some 18-month jobs, but over the course of 30 years, you're going to have more jobs that last five years.[4]

In 2012, GE said its strategy was based on five pillars: technological leadership, services acceleration, enduring customer relationships, resource allocation, and globalization.[5] Immelt described the company as a winning company because of its ability to create its own future. In his own words:

It starts with a culture—the foundation for any successful enterprise—a culture that inspires our people to improve every day. Our team is mission-based: We build, move, power, and cure the world. We constantly learn from our customers, our competitors, and from each other. Strategy is not set through one act or one deal. Rather, we build it sequentially through making decisions and enhancing capability. As we look forward, it is more important that investors see the company through a set of choices we make for the purpose of creating value over time.

In the letter to shareholders, Immelt described five strategies for growth (see Figure 1):

> ***First, we have remade GE as an "infrastructure leader" with a smaller financial services division.*** *About $60 trillion of infrastructure investment is needed by 2030 to support billions of new consumers joining the middle class in the emerging world, and to support developed-market productivity. Over the last decade, we have grown our infrastructure platforms by investing in adjacencies, pursuing opportunities that are closely related to the core. About one-third of our infrastructure revenues comes from businesses we weren't in a decade ago. These include fast-growth businesses like Oil and Gas, Life Sciences, and Distributed Power. This growth has come through organic investment and focused acquisitions. At the same time, we are creating a smaller, more focused financial services company—one that has a lower risk profile and adds value to our industrial businesses. Our goal is to have infrastructure earnings reach 70% of our total over time.*
>
> ***Second, we are committed to allocating capital in a balanced and disciplined way,*** *but with a clear priority for dividend growth. GE will generate $100 billion for allocation over the last few years, including cash from existing operations, dividends from GE capital and dispositions. The top priority remains growing the dividend. Since 2000, we have paid out $106 billion in dividends, more than any other company. We like GE to have a high dividend yield, which is appealing to a majority of our investors.*
>
> ***Third, we have significantly increased investment in organic growth, focusing on R&D and global expansion.*** *We believe that investing in technology and globalization is key to gaining market share. Annually, we invest more than $10 billion to launch new products and build global capability. We use the entire GE enterprise to improve the value of our investments in technology and globalization. For technology, we have a "Global Research Center Network" that builds strategic capability, spreads technology around the world, and innovates for local markets.*
>
> ***Fourth, we have built deep customer relationships, based on an outcome-oriented model.*** *Our goal is aligned with customer outcomes, and our products improve their productivity. We believe in a solutions-oriented selling model, one that can deliver outcomes for customers. We only win when customers win.*
>
> ***Fifth and finally, we have positioned GE to lead in the big productivity drivers of this era.*** *This is important for growing our margins while keeping our customers competitive. The levers of productivity are constantly changing. For more than a century, GE has been a leader in productivity and innovation.*[6]

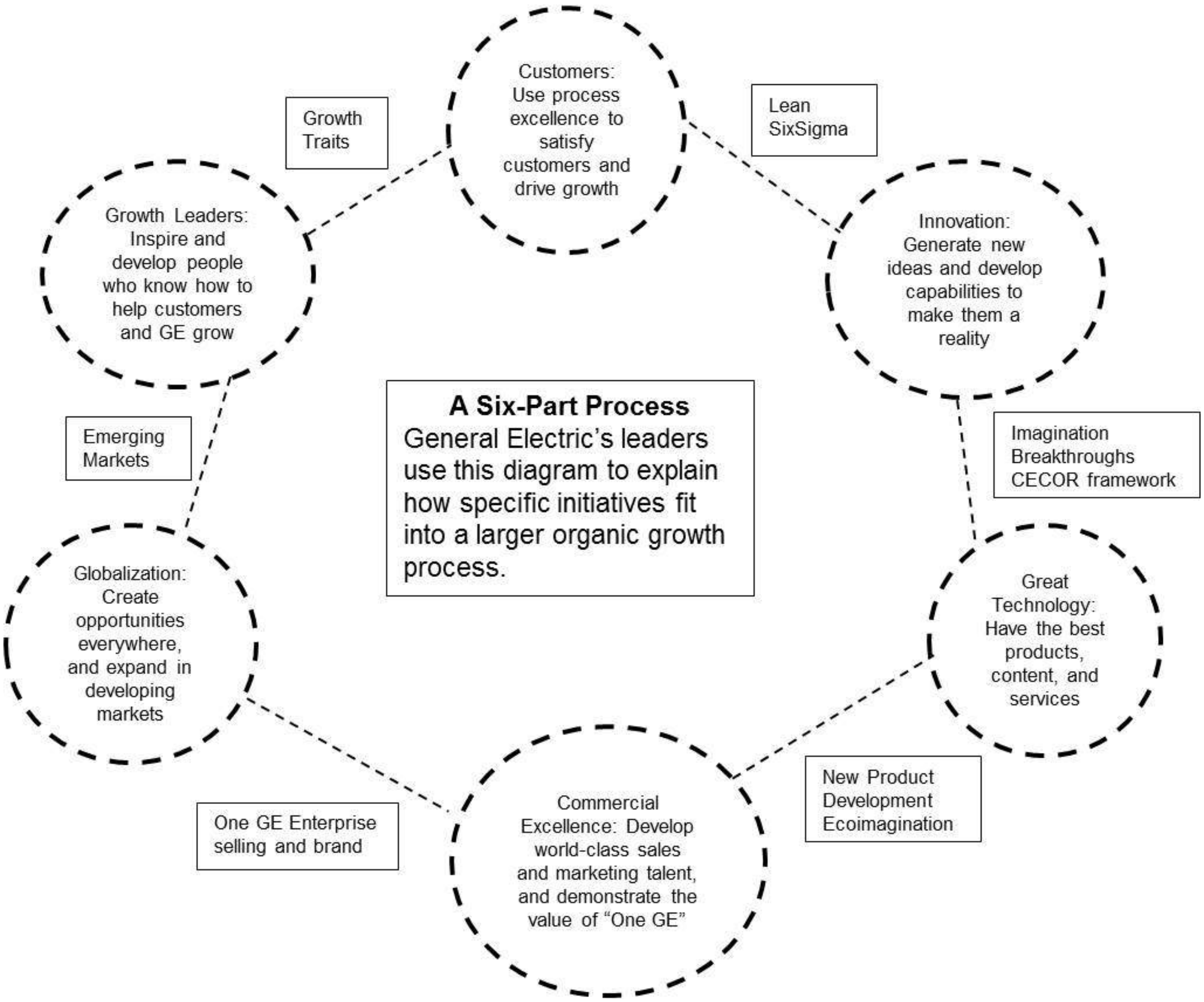
GE's Acquisition Strategy

Acquisitions and divestitures played a key role in GE's corporate strategy. Exhibits 2 and 3 show GE's main acquisitions and divestitures over the past few decades. GE exited all or most of its insurance, materials, equipment services, entertainment, and industrial platforms. GE also exited its U.S. mortgage origination business and its personal loan business in Japan. In 2007, GE sold its chemicals business because of "rampant inflation in raw material costs." In 2014, GE announced that it would divest its consumer credit business in an IPO that valued the business at about $20 billion.

Over the same time period, GE acquired many new businesses. GE investments resulted in one of the largest renewable-energy businesses in the world. GE diversified its healthcare business by investing in life sciences and healthcare IT. GE created a new high-tech industrial business called Enterprise Solutions and made several investments in financial services businesses in global markets. GE acquired Vetco Gray, a company that produced products for the upstream oil and gas industry. In 2014, GE acquired the French engineering company Alstom for $17 billion.

Not all of GE's acquisitions were successful. It was widely acknowledged that the acquisition of brokerage firm Kidder Peabody in the mid-1980s was a huge failure. The system of individual risk-taking and incentive compensation at Kidder Peabody never meshed with GE's culture and values. Many questions were also raised when GE created NBC Universal in 2003 via the 80% acquisition of Vivendi's film and television unit, which included Universal Studios and theme parks. Universal had gone through several M&A deals before the GE acquisition. In 1990, the large Japanese electronics company Matsushita acquired MCA, Universal's parent, for

Figure 1. GE Growth Strategy: A Six-Part Process



Source: T. A. Stewart, "Growth as a Process: The HBR Interview Jeffrey R. Immelt," *Harvard Business Review*, June 2006, pp. 60-70.

$6.59 billion. In 1995, the Canadian spirits company Seagram acquired 80% of MCA from Matsushita for $5.7 billion. In 2000, Vivendi Group acquired Seagram. At the time of the deal, many pundits raised questions. For example, *The Wall Street Journal* wrote, "The strategic elements of the deal are harder for GE to justify. The media business is far more competitive than other industries in which GE can use its financial heft and strong brand name to squash the competition. GE executives have said they had no interest in owning a movie studio, with its unpredictable earnings and difficult personalities."[7] NBC Universal was divested in 2012, and Immelt said, "When we looked at NBC, we made the transition from network to cable and the next transition was Internet and I didn't want to make that transition as I didn't think we were particularly skilled in that. I wasn't sure if we are positioned to play that game"[8]

In his 2012 letter to the shareowners, Jeffery Immelt wrote: "We will continue to execute on focused acquisitions, a capital efficient way to grow the company. We will keep our focus on acquiring specific capabilities where GE can add substantial value."

GE's Culture and Values

GE's corporate values can be found in corporate statements that identify the traits that should be embodied by leaders. Table 1 shows an example of a GE value statement during Jack Welch's tenure as CEO.

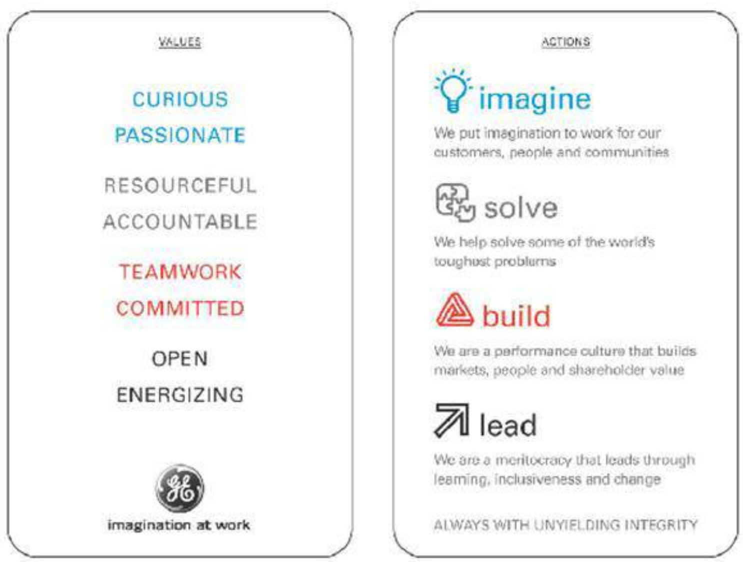
Table 1. GE Value Statement

GE Leaders—always with unyielding integrity:

- Have a passion for excellence and hate bureaucracy
- Are open to ideas from anywhere, and committed to work out
- Live quality and drive cost and speed for competitive advantage
- Have the self-confidence to involve everyone, and behave in a boundaryless fashion
- Create a clear, simple, reality-based vision, and communicate it to all constituencies
- Have enormous energy and the ability to energize others
- Stretch, set aggressive goals, and reward progress, yet understand accountability and commitment
- See change as opportunity, not threat
- Have global brains, and build diverse and global teams

Table 2 shows a more recent statement of values and actions.

Table 2. GE Values Card



GE evaluated its leaders based on various traits. According to Jeff Immelt:

> *By the end of 2004, we came up with five growth traits. The first is external focus. Then there's imagination and creativity. And a growth leader must be especially decisive and capable of clear thinking. Inclusiveness is also vital. Finally, leaders in these high-growth companies tend to have deep domain expertise.*[9]

Table 3 provides more detail on the growth traits. For each growth trait, there were measurable behaviors that represented "outstanding" and "needs improvement." For example, for clear thinking, "Confident in stand-up skills…without the PowerPoint" was an outstanding behavior. "Getting bogged down in details" was evidence of a need for improvement. GE used these behaviors to evaluate its leaders and managers.

A few years ago, GE leadership asked whether the above growth traits were still the right values. GE looked outside the company by having its senior executives meet with leaders from more than 100 organizations, including large multinationals, universities, and small start-ups in emerging markets. The conclusion was that the five growth values were still relevant for GE.

Table 3. GE Individual Growth Traits

External Focus
- Defines success in market/industry terms…understands customer needs, marketplace dynamics, industry trends, and the competitive landscape in your industry or function
- Considers the external impact of business activities and decisions on customers, market/industry, investors, media, government, and communities
- Anticipates customer needs and ensures that they are met…measures processes and performance through the customer's eyes
- Stays current with industry trends, including market intelligence and competitive analysis, and takes an active role in shaping their industry and/or function
- Takes action to enhance GE's reputation among all stakeholders…represents the Company well

Clear Thinking
- Simplifies strategy into specific actions, makes decisions, and communicates priorities
- Has strategic capacity to sift through complex information and focus on the critical few priorities
- Communicates messages clearly and concisely
- Able to translate strategy into business objectives with clear accountability
- Decisive…able to make decisions with speed and accuracy…based on best available information
- Is accountable for organic growth and frees up resources to fund innovation
- Reality…ability to bring reality to situations to identify gaps between perception and facts

Imagination and Courage
- Has the imagination to take risks on both people and ideas…bold thinking to imagine a better way and the courage to make it a reality
- Generates new and unique ideas…makes fresh connections; an original thinker
- Courage to take action on ideas…fights for growth, both internally and externally
- Supports an environment in which people can take risks, consistent with integrity, and experiment
- Brings creative ideas to fruition…good instincts about which ideas will work and when
- Viewed as an advocate of innovation…pushes for "big bets" to accelerate our competitive advantage

Inclusiveness
- Can energize teams through inclusiveness and connection with people…builds loyalty and commitment
- Creates an engaging work environment…appeals to the unique interests of each team member
- Builds a connection with the team through personal involvement and trust…inspires people to want to perform at a higher level
- Promotes an environment that recognizes and celebrates individual and cultural differences
- Develops others…provides others with feedback and coaching…encourages personal growth

Expertise
- Has the confidence and perspective that comes through depth in industry/function to impact growth
- Learns from living with the impact of their decisions and actions
- Has demonstrated leadership throughout different business cycles
- Gains perspective through varied experiences and build-up of skills
- Continually strives to increase knowledge with up-to-date information

Comments on GE Culture

Dennis Dammerman, former GE Vice Chairman and CFO, made the following comments about how the GE culture evolved during Jack Welch's tenure:[10]

> *Eventually, the businesses began to get flatter and flatter, with some interesting phenomena as by-products. For one, a whole new type of leader became necessary. One could no longer be a colorless, impersonal autocrat, a technician who could manipulate the management structure to produce results. The structure was gone. The leader now had to emerge from the corner office, and excite teams—energize them, lead them rather than manage them. Not everyone was capable of doing that. Many stumbled for a while and retired or otherwise departed. Some adapted amazingly well and became excited and younger in their new role. The bureaucrats, many at significant pay levels, had a bad time of it. The kitchen light came on, and suddenly there were no longer the pipes and cabinets of bureaucracy to hide under. They left by the battalions.*

The phenomenon that best captures the sharing, learning, cooperative atmosphere at the new GE is what we call the CEC, our Corporate Executive Council meeting, which takes place quarterly. The leaders of our 12 big businesses—the senior corporate leadership and a few others, about 25 of us in all—assemble from around the world for two days and meet in a small room at our management center, downstate from here at Crotonville, to share insights, best practices, market intelligence, warnings, technology, anything of value, in an atmosphere I can only describe as approximating a coed frat house. The CEC is a family meeting with a lot of laughing, arguing, shouting, good-natured insults, usually initiated by Welch, and incessant sharing. Someone who once sat in on this CEC meeting remarked with some amazement that "these guys sound like they actually like each other." A political remark, a "puffy" chart, a self-serving presentation are now so culturally alien that a pall of embarrassed silence descends over the room on the infrequent occasion one slips in.

Our business leaders go away from these meetings refreshed, enlightened, renewed. They go back to the competitive wars knowing that every resource and every brain in this 100 billion dollar global enterprise is instantly at their disposal, and whatever they need will be willingly given if they just pick up the phone. Those who persist in lumping GE with the classic conglomerates would need less than 10 minutes in that Crotonville meeting room to arrive at a new view.

If there is a simple but profoundly important lesson we learned from those days, it is this: you must have a vision that—like "number one or number two in every business"—is so clean and so clear that everyone from a trainee on a drill press to a Vice Chairman can understand it, and repeat it until you wake up at night saying it, then say it again the next day. And even more important, you must reinforce that vision with every action you take and, by proxy, every action your management team takes, because culture change can be smothered in its cradle by a very small number of visible contradictory actions.

Other comments on the culture from a former executive:

I was proud to be a GE employee. GE always had a good reputation. I could go to the airline as my customers and say I was from GE—that gave me some respect.

It was a tough place to work. There were always financial measures. You had to embrace the culture. You could have fun, be challenged, be rewarded.

Working at GE is rewarding, intense, and unforgiving. It is results-driven and measurement-driven. It is unforgiving about integrity and business practices, unforgiving with regard to values, and unforgiving if you do not embrace the business measurements and initiatives.

We used to say they would throw you in the swamp and then tell you it was full of alligators.

GE was recognized for its training. I felt I could do battle with the best of them. I started from humble beginnings.

GE Initiatives

Like his CEO predecessors, Jeff Immelt tried to put his stamp on the culture. He spoke often about the importance of risk taking, innovation, and growth. In doing so, he had to counter the often hard-driving process-oriented culture that was heavily focused on financial metrics. The company encouraged its leaders to come up with "Imagination Breakthrough" proposals that would take GE into a new line of business, geographic area, or customer base, and give GE an incremental growth of $100 million.[11]

New initiatives were regularly introduced at GE. Table 4 provides a list of initiatives under way when Jeff Immelt became CEO, and Table 5 shows some new initiatives started after Immelt became CEO.

Table 4. GE Initiatives in Place When Jeff Immelt Became CEO

- **Best Practices Sharing:** Identifies particularly effective approaches and spreads them across GE's businesses.
- **Change Acceleration Process:** Equips leaders with a proven method of managing change and prepares them to succeed as change agents.
- **Crotonville Customer Programs:** Deploy the resources of GE's renowned internal training facility for the benefit of customers.
- **Multigenerational Product Development Plan:** Ensures that new products are not simply optimized for the near term but have the ability to evolve with customer needs.
- **Process Mapping:** Creates visual representations of business processes to facilitate understanding and simplification.
- **Quick Market Intelligence:** Builds on Wal-Mart's innovation of tapping into real-time data about customer and competitor behavior and disseminating that insight rapidly throughout the organization.
- **Simplification:** Drives out extraneous costs incurred by overcomplicated processes and proliferation of options in sourcing and other areas.
- **Six Sigma:** Employs Motorola-pioneered methods to bring defect levels below 3.4 defects per million opportunities. Intensive quality training yields "green belts," "black belts," and "master black belts."
- **Work Out:** Uses cross-functional teams and town hall meetings to find ways to take unproductive work out of the system, like meetings, reports, and approval levels that add no value.

Source: T. A. Stewart, "Growth as a Process: An Interview with Jeffrey R. Immelt," *Harvard Business Review*, June 2006, pp. 60-70.

Table 5. New GE Initiatives Since Jeff Immelt Became CEO[1]

- **Acquisition Integration Framework:** Outlines a detailed process for ensuring that acquired entities are effectively assimilated into GE.
- **At the Customer, for the Customer:** Brings GE's internal best practices, management tools, and training programs to customers facing their own managerial challenges
- **CECOR Marketing Framework:** Connects innovation and other growth efforts with market opportunities and customer needs by asking questions to *calibrate, explore, create, organize,* and *realize* strategic growth.
- **Customer Dreaming Sessions:** Assemble a group of the most influential and creative people in an industry to envision its future and provoke the kind of interchange that can inspire new plans.
- **Growth Traits and Assessments:** Outline and enforce the expectation that GE's next generation of leaders will display five strengths: external focus, clear thinking, imagination, inclusiveness, and domain expertise.
- **Imagination Breakthroughs:** Focus top management's attention and resources on promising ideas for new revenue streams percolating up from anywhere in the organization.
- **Net-Promoter Score:** The percentage of customers who say they would recommend GE to other companies minus those who wouldn't.[2]
- **Developing Health Globally (DHG):** DHG builds healthcare capacity across national public healthcare systems in the developing world.
- **Reverse Innovation:** Innovating products in a poor country and selling those products in a rich country.[3]
- **Ecoimagination:** GE's commitment to build innovative solutions for today's environmental challenges while driving economic growth.

[1] T. A. Stewart, "Growth as a Process: An Interview with Jeffrey R. Immelt," *Harvard Business Review*, June 2006, pp. 60-70.
[2] K. Kranhold, "Client-Satisfaction Tool Takes Root; GE Embraces Measurement of Customers' Experience; Winning Back 'Detractors'," *Wall Street Journal*, July 10, 2006.
[3] http://hbr.org/2009/10/how-ge-is-disrupting-itself/.

The Impact of GE Initiatives

A GE executive had the following to say about initiatives:

> *We took the initiatives very seriously. Some were a pain, but I tried to see how they would help my business. For example, in aircraft engines a Multigenerational Product Development Plan was absolutely critical. At the Customer, for the Customer was something we practiced. We would help our customers implement some of our best practices such as Six Sigma. After 9/11, we had customers who needed help and we went in to see what we could do. We set up special courses for our customers at Crotonville—sometimes Jack [Welch] would show up and hang out in the bar.*
>
> *Every business is looking for a best practice to spread. Why would I want to share a best practice with another part of the company? Because there are rewards for me. For example, I might be trying to sell aircraft engines to a customer and I remember that one of our lighting guys mentioned something that might be useful to the customer. I might contact the light bulb guy to do an assessment in Brazil. He will do it because it is part of the culture and also because there are rewards for doing it. If someone said no I would go around him. I don't think anyone ever said no to me.*
>
> *We often worked with other businesses. In a real case, we had an aircraft company customer that was willing to buy from us. They wanted GE Capital to help control some of their money. When an aircraft company sells aircraft, their customers need to know that the company has the financial capital to stay in business and support their products. With GE Capital involved, the aircraft company became more creditworthy. The customer wanted GE engines because the engines were good, and they wanted GE Capital to because it created legitimacy for them. GE Capital got involved because it was good business and because it helped us.*

GE Processes

GE used a variety of processes that were shared across the corporation. These "business rhythms," or essential business processes, included Session 1 (strategy and markets); Session 2 (operating plan), Session D (compliance), and Session C (ranking). Once a year, all GE salaried employees were evaluated and ranked in a process known as Session C. Session C, a performance appraisal and leadership assessment process developed in the 1950s, was a vehicle for identifying high-potential individuals across the firm. It was also a vehicle for the professional development of individuals and for considering succession into management roles. During this process, managers give their people candid and frank feedback based on achievement of stretch objectives and demonstration of company values.12

According to a GE executive:

> *Session C happens every year at the same time. The process starts in January and the final deadline is usually in March. There is a set of instructions that identify the ranking criteria. You need a good HR manager because every year the criteria and instructions change a bit. We were allowed to have some local attributes depending on the nature of the business.*
>
> *The instructions might say, "Separate employees into 3 categories: the top 10, bottom 10, and middle 70." We had to identify high potentials and least effective. A high potential is someone who can move two levels of management on the organization chart. There is a limit to the number of high potentials, and I usually had to debate with my peers about who was a high potential. My boss was the ultimate arbiter. If you made it into the top 10% and were classified as a high potential, it meant that your career would change.*
>
> *I had to do about 7-8 direct reports, and my direct reports would do their reports, and so on. This would be done for the whole organization in all the different business units. I had about 200 salaried employees, and they would all get ranked. Everybody was graded on the same criteria.*
>
> *After the rankings were rolled up and everything was approved by the CEO, the computer was locked and we would get notices that it was time to do employee appraisals. We would have to meet with employees and discuss the appraisal. We had to fill out the section on areas for improvement. Both my employee and I would have to acknowledge in the computerized system that the appraisal was being done.*

There are rules about the distribution of salaries. We were forced to discriminate between employees. I also had to make recommendations on stock options. There were guidelines, such as a certain percentage has to be given to people who had never received them.

There was a time when I believed taking out the bottom 10% was ruthless and uncaring. Over time, I began to realize that businesses need the right people and that it is best for the individual and the company to make the change. You cannot afford to not have the best team….I had confidence and I did not find the system threatening. You got a taste for success and you had to adapt and change. It is a human system. I think it is as fair as a system like this can be. I think we generally got it right, but there were a few exceptions. This was the culture and this was the way it was done. There were always a few people who believed that the system was against them. As a manager, Session C is not taken lightly because I am getting judged on this.

The Session C process concluded with the CEO going into the field to each of GE's businesses to personally review the performance and development plans for GE's top managers. At the conclusion of Session C discussions, the CEO and senior executives agreed and signed off on developmental actions for each individual. In doing so, the corporate headquarters at GE "owned" the top 500 leaders and "rented them out" to the firm's businesses.13 Managers who tried to hold on to top people and not share could receive negative evaluations.

According to Susan Peters, GE's Senior VP Human Resources, the goal of leadership development:

is [to] find the best people, put them in the top, recognize, reward them, grow them, ensure that the people who are really carrying the company are getting the right feedback and support and training and development. Those who are not moving apace too get feedback in development as their first course of action, but if they cannot make it then we help them leave with respect and dignity. We always believe in differentiation. We are more about guidelines than specific numbers. We don't want people to put 10% in this box. We want people to use judgment in the process. There might be teams in GE who have no people that are on that list; there are others who have 15%. You have to talk about it and you have to be fair and give people time.[14]

Succession planning was another critical HR process. GE managers in operational roles moved frequently, usually within a business unit but sometimes across businesses. Finance, legal, and HR managers would be frequently moved across businesses as a means of sharing ideas and transferring best practices.

Once a year we had to do succession planning using a formal system. For my direct reports, I had to identify 2-3 people per position who could take over the management positions. I did it with my organization from the bottom up, and I had had a lot of debates with my staff. I had to defend my plan to my boss who had to defend it to his boss. Managers would get feedback as part of the appraisal process on where you fit in the organization and where your career would be going.

Part of the success of the company was the ability to move people around. Without this system, GE would not be as successful. There was a time in my career where I got three job offers in a week. My boss thought I was getting a bit stale in my job, so he put the word out to HR that I might be interested in a move. HR is the dealmaker and they know all the top talents. They make a list for all the jobs. I was offered two jobs that would have required an international move and I turned them down. The third job I took. Can you turn jobs down? Yes, but it needs to be done quickly and gracefully.

We had to sell ourselves as well as our products. Every year you are getting judged. Once you change jobs a few times, you start to believe that you have the set of skills to be transferable to other jobs. You look forward to new jobs because there is a network of people behind you who can help.

Growth and Change

The culture at GE revolved around change. The Change Acceleration Process (Table 4) was an initiative introduced specifically to help GE managers manage the change process. Several decades ago, Jack Welch described change at GE:[15]

You've got to be on the cutting edge of change. You can't simply maintain the status quo, because somebody's always coming from another country with another product, or consumer tastes change, *or the cost structure does, or there's a technology breakthrough. If you're not fast and adaptable, you're vulnerable. This is true for every segment of every business in every country in the world.*

People always ask, "Is the change over? Can we stop now?" You've got to tell them, "No, it's just begun." They must come to understand that it is never ending. Leaders must create an atmosphere where people understand that change is a continuing process, not an event.

The changes are always bigger than you initially sense. In the beginning of something like the defense industry downsizing, people are in denial—they can't get themselves to believe how big the change will be.

How do you bring people into the change process? Start with reality. Get all the facts out. Give people the rationale for change, laying it out in the clearest, most dramatic terms. When everybody gets the same facts, they'll generally come to the same conclusion. Only after everyone agrees on the reality and resistance is lowered can you begin to get buy-in to the needed change.

GE recognized that to drive change you need to stick with it. You drive everyone by using the tools. You need to get scale so that the tool gets better. You don't allow for variation on the tools and initiatives because you need to build scale.

Another executive stated:

Change is in the GE DNA. The initiatives were always changing. Session C was a bit different every year. We were always hearing from Jack Welch about the need for change. If you are not comfortable with change, GE is not the place to be.

We were always looking for new ideas and we wanted to share ideas with each other. We looked outside our business—Jack used to say don't look at competitors; they probably have the same challenges. We looked outside the business for ideas we could use. People were encouraged to look at best practices at other companies.

Conclusion

To conclude, some comments by Jeff Immelt:

Investors often ask how we can execute in a company with such diverse businesses. We do it by running the Company with common initiatives around growth and financial discipline….I want investors to see that GE is truly more than the "sum of the parts." The strength of GE is in the "totality." It is the ability to deliver in good times and bad.[16]

Our ability to create our future is why GE can win any environment. It starts with a culture—the foundation for any successful enterprise—culture that inspires our people to improve every day. Our team is mission-based: We build, move, power, and cure the world. We believe in a better way; we constantly learn from our customers, our competition, and each other. We seek solutions for our customers and society. And we are "We Company." We know that strong teams with great people outperform individuals. That is why GE works.[17]

We like the way GE is positioned in the environment: a great portfolio of world-class, technology-leading businesses; a strong position in fast-growth global markets; leading-edge service technologies that achieve customer productivity; high visibility with a backlog of $210 billion; and a strong financial position. We want investors to see GE as a safe, long-term investment. One with a great dividend that is delivering long-term growth.

Endnotes

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[14] http://articles.economictimes.indiatimes.com/2013-11-15/news/44113596_1_leadership-development-development-theory-things.
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[16] 2007 GE Annual Report.
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Exhibit 1. Summary of GE Businesses

- **GE Aviation**
  2012 Revenue: $20 billion; **2012 Profit:** 18.7%; **Number of Employees:** 25,000
  Aviation Services, Aviation Systems, Business and General Aviation, Commercial Engines, GE Capital Aviation Services (GECAS), Marine Engines, Military Engines

- **GE Capital**
  2012 Revenue: $46 billion; **2012 Profit:** 3.9%; **Number of Employees:** 60,000;
  Commercial Lending and Leasing, Consumer, Real Estate, Energy Financial Services, Aviation Financial Services

- **GE Energy Management**
  2012 Revenue: $7.4 billion; **2012 Profit:** 1.8%; **Number of Employees:** 30,000
  Automation & Process Control, Controls, Critical Power, Drives, Electrical Distribution, Geospatial Systems, High Voltage Equipment, Industrial Communications, Monitoring And Diagnostics, Motors And Generators, Power Conversion, Protection And Control, Smart Metering, Substation Automation, Utility Operation Systems

- **GE Healthcare**
  2012 Revenue: $18.3 billion; **2012 Profit:** 15.9%; **Number of Employees:** 46,000
  GE Blueprint for Low Dose, GE Healthcare, GE Healthcare Education, GE Healthcare Life Services, GE Healthcare News, GE Healthcare Products, GE Healthcare Services, GE Healthcare Specialties

- **GE Home and Business Solutions**
  2012 Revenue: $7.9 billion; **2012 Profit:** 3.9%; **Number of Employees:** 28,000
  Avantapure, Homespring, Home Standby Generator Systems, Pro Elite, Sealants

- **GE Oil and Gas**
  2012 Revenue: $15.2 billion; **2012 Profit:** 12.6%; **Number of Employees:** 37,000
  Products: air filtration, air-cooled heat exchanges, artificial lift controls, blowers, capital drilling equipment, centrifugal pumps, chemical injection pumps, compressors, controls—generator, drilling measurements, gasification, generators, nuclear energy, oil and gas reducing and metering systems, petroleum reactors and steam condensers, pipeline solutions, radiation measurement, solar power, solar turbines, subsea wellheads, surface flow control, surface pumping systems, turboexpanders, utility operations software, wind turbines

- **GE Power and Water**
  2012 Revenue: $28.3 billion; **2012 Profit:** 19%; **Number of Employees:** 37,000
  Products: gas turbines, gas engines, generators, nuclear energy, solar power, steam turbines, water, process and treatment equipment, wind turbines

- **GE Transportation**
  2012 Revenue: $5.6 billion; **2012 Profit:** 18.4%; **Number of Employees:** 12,000
  Diesel marine power, diesel stationary power, drilling motors, energy storage, locomotives, railway signaling and communication, railway traffic control and dispatch, software

Source: Various GE sources.

Exhibit 2. Select GE Divestitures

Date	Business Sold	Value (where available)
1969	Aparatebau A.G. Goldach	
1969	Monogram Electric Housewares	
1983	KOA-AM and KOAQ-FM	$22M
1984	Utah International and Utah-Marcona	
1984	Houseware operations	$300M
1984	Electro-Chemical Energy Conversion Programs	$4.7M
1985	Simplex-GE	
1986	Coronet	
1987	RCA Global Communications	$160M
1987	NBC radio network operations and stations	
1987	Nuclear waste services assets	$5.5M
1987	Software International Corporation	$24M
1989	Instrument products operations	$110M
1990	Ladd Petroleum	$542M
1998	Domestic compressor motor business	$120M
1999	Ruffin Village	$3.5M
2002	Disaster Recovery Services Unit	
2003	Edison Life Insurance plus home and auto insurance businesses	$2.15B
2004	Water Technologies' transportation coolant aftermarket business	
2004	Nuovo Pignone and retail fueling business	$203.8M
2004	Commercial AC motor unit	$72.5M
2004	Dione PLC	$113M
2004	Storage USA	$2.3B
2006	GE Life	$910M
2007	Plastics business	$11.6B
2007	U.S. mortgage business	$117M
2010	NBC Universal	
2011	Mexican Assets (GE Capital)	$2.0 B

Exhibit 3. Select GE Acquisitions

Date	Company Acquired	Industry	Value
1968	Metropolitan Television	TV Broadcasting	
1969	Benerson	Manufacturing	
1981	Intersil	Integrated Circuits	$235M
1984	Employers Reinsurance	Insurance	$1.1B
1986	RCA	Consumer Electronics	$6.4B
1986	Kidder, Peabody, & Co.	Investment Banking	$600,000
1987	Gelco Payment Systems	Payment Processing	$414M
1987	D&K Financial	Financial Services	
1990	MNC Financial	Banking	
1990	Burton Group	IT Consulting	$329M
1990	Travelers Mortgage Services	Mortgage	
1990	ELLCO Leasing Corporation	Equipment Leasing	
1990	Tungsram	Lighting	$150M
1991	Businessland Rents	Rental/leasing	
1993	GNA Corporation	Annuity Sales	$577M
1993	United Pacific Life Insurance	Life Insurance	$550M
1997	Lockheed Martin Medical Imaging Systems	Medical Imaging	
1997	Imp Leas	Automobile Leasing	
1998	Unilec Corporation	Electrical Distribution	
1999	Syprotec	Substation monitoring	
1999	Energy and Environmental Research	Nitrogen Oxide Control	
2000	Harmon Industries	Train Crossing Signals	$386M
2000	Young Generators	Electrical Generators	
2000	Smallworld Plc.	GIS/mapping Software	$210M
2001	sofion AG	IT Services	
2001	Heller Financial	Commercial Banking	$5.3B
2002	Unison Industries	Aircraft Engines	
2002	Time Retail Finance	Consumer Credit	$210M
2002	Interlogix	Security Systems	$777M
2002	Druck Holdings	Sensor Technology	$335M
2002	Bravo (through NBC)	Cable Channel	$1.25B
2002	Enron Wind	Wind Power	$325M
2002	PII	Pipeline Inspection	$446M
2003	International Fiber Systems	Fiber Optics	
2003	Universal	Entertainment	$14B
2003	Transamerica Finance	Commercial Lending	$5.4B
2003	Mountain Systems	Manufacturing Systems	
2003	Monitoring Automation Systems	Security Systems	
2003	OSi Specialties	Chemicals	
2003	M.J. Harden Associates	GIS/mapping	$72M
2003	Triple G Systems Group	Medical Info Systems	$78M
2003	CitiCapital Fleet Services	Fleet Management	$1.2B
2003	Instrumentarium	Medical Equipment	$2.3B
2004	HPSC	Medical Financing	$72.4M
2004	Benchmark Group	Real Estate	$502M
2004	BHA Group	Air Pollution Control	$239M
2004	Dillard National Bank	Commercial Banking	$700M
2004	DeltaBank (Russia)	Commercial Banking	
2004	Ionics	Water Treatment	$1B
2004	Invision Technologies	Airport Screening	$885M
2005	IDX	Medical Info Systems	$1.4B
2005	Edwards Systems Technology	Fire Detection	$1.4B
2005	Recreational Vehicle and Marine Financing (from E-trade)	Online Brokerage	$60M
2006	Arden Realty	Real Estate	$4.8B
2006	SBS Technologies	Embedded Computing	$260M
2006	Biacore International AB	Life Sciences	$439M
2006	Trustreet Properties	Financial Services	$1.2B
2007	Smiths Aerospace	Aviation	$2.4B
2007	Vetco Gray	Oil and Gas	$1.9B
2008	Vital Signs Inc.	Health care	$860M
2010	Dresser Inc.	Oil and Gas	$3.0B
2010	British Wellstream Holding Plc.	Oil and Gas	$1.3B
2011	Johnwood Plc.	Oil and Gas	$2.8B
2013	Lufkin Industries	Oil and Gas	$2.98B
2014	Alstom	Engineering	$17B