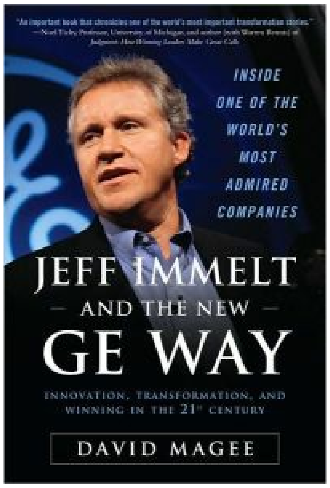

Book Jeff Immelt and the New GE Way

Innovation, Transformation and Winning in the 21st Century

David Magee
McGraw-Hill, 2009

Recommendation

Few things are more challenging for a new chief executive than following in the footsteps of a corporate legend, but that is what Jeffrey R. Immelt had to do when he succeeded Jack Welch as chairman and CEO of General Electric (GE). In this comprehensive portrait of a talented young CEO who has overcome tough challenges, David Magee, the author of respected books on Toyota, Nissan, Ford and John Deere, traces Immelt's rise to the top of GE's competitive management ladder. Magee provides Immelt's complete background and limns his GE career with an emphasis on the problems he addressed and the values that support his strategic decisions. *BooksInShort* recommends this saga as a well-reported inside look at global strategy in the making.

Take-Aways

- Jeff Immelt was born in 1956, the son of a General Electric (GE) employee.
- Just 30 days after he started at GE, Immelt made a marketing presentation to then-CEO Jack Welch, who noticed his management potential.
- Immelt steadily climbed the corporate ladder, moving through GE's divisions.
- Welch retired and Immelt, then aged 45, became CEO in September 2001. The 9/11 terrorist attacks happened four days later.
- Immelt has sold $35 billion in assets and spent $80 billion on acquisitions.
- He advocates continuous education for all GE executives and employees.
- GE spends $1 billion annually on training.
- GE's growth plan is based on globalization, excellence, customer service, technology, innovation, change, continuing education and leadership development.
- GE's "Ecomagination" program is a major green initiative. It includes using solar and wind energy.
- GE is poised to provide $3 trillion in infrastructure to developing countries.

Summary

Climbing the Ladder

When Jeffrey R. Immelt assumed the chairmanship of GE in 2001, he stood in the shadow of his legendary predecessor, Jack Welch. During Welch's 20 years at GE, he cut costs while moving GE's market capitalization from $14 billion to $400 billion. He also built an international reputation as a tough, astute manager. Welch's achievements include identifying Immelt as a leader when he was just a new kid in marketing.

> "You can bring good ideas to life, but if they can't make money, they don't have a place in a growth- and bottom-line-oriented company like GE."

Immelt was born in 1956 in Cincinnati, Ohio. His father, Joseph, a retired GE veteran, and his mother, Donna, a teacher, taught him the value of education. He was a top student and football player in high school and, at 6 feet 4 inches (1 meter 93 centimeters) tall, he became captain of Dartmouth's football team his senior year. He graduated in 1978 with a bachelor's degree in applied mathematics, and took a job at Procter & Gamble. Within a year, he enrolled in Harvard's M.B.A. program. In 1982, Immelt entered the "commercial leadership" program at GE, the firm's path to management. He worked in as a sales consultant in marketing at corporate headquarters in Connecticut, where GE listed him as one of 5,000 employees suited for a top position. Welch, then in his second year as chairman, was pursuing a "shrink-to-grow" corporate strategy, eliminating 100,000 jobs, shedding old business lines, fostering employee initiatives and downsizing GE's bureaucracy.

"No company in the world, of course, works with as many moving parts as GE."

Just 30 days after Immelt started at GE, he made a marketing presentation to Welch, who personally supervised the internal appraisal of potential top talent. Welch had an immediately favorable impression of Immelt. In 1984, he became a district sales manager, supervising 15 employees at GE's plastic's division in Dallas. He was promoted to Western regional sales manager in 1986. In 1987, his name appeared on a roster of 150 employees that were considered for top management jobs. In 1989, he became "president of consumer service" at GE Appliances in Louisville, Kentucky, where he supervised 7,000 union employees. To test Immelt's management abilities, Welch chose him to supervise a major refrigerator component recall. Immelt made repair calls, worked with employees and sent Welch candid updates. He reversed the division's weaknesses, restored profits and improved product quality, gaining confidence and higher titles.

"Some of Welch's famed strategies, including continual cost-cutting and a focus on the American consumer, showed flaws near the end of his managerial run."

In 1992, GE sent Immelt back to Dallas as "commercial vice president" of the $3-billion, 5,000-employee GE division Plastics America. When it missed its targets numbers, Immelt met the challenge and settled a serious pricing problem with General Motors, its largest customer. Welch recognized Immelt's efforts and kept moving him up. Immelt was already on the short list of eight potential Welch successors in 1997 when he became president of stagnant, global GE Medical Systems. He revitalized operations by providing advanced services to large customers, developing new partnerships and technologies, implementing Welch's favored Six Sigma process and making acquisitions. He initiated sharing product development data with customers, and pushed to develop GE's CAT scan and digital mammogram machines. In three years, Immelt increased sales 75%, and pushed revenues from $3.9 billion to $7.2 billion.

Crisis Management

In 2000, Welch chose Immelt as CEO over two veteran executives. In September 2001, Welch retired and Immelt, then aged 45, took office. Five days later, terrorists destroyed the World Trade Towers. Within a week of the New York City attacks, GE's stock lost nearly $80 billion in market capitalization. Immelt sought to stem the losses through a stock buy-back. To complicate matters, GE-owned NBC suffered an anthrax scare. Meanwhile, scandals were unraveling at Enron, Tyco and WorldCom, raising questions about management at other conglomerates. GE's accounting practices drew questions and its stock suffered. By year's end 2001, earnings were up 11% but GE's value was down 16%. Immelt said market factors, like the recession and the dot-com bust, influenced its decline, but he acknowledged that he learned from the fall. He decided that, while short-term internal results mattered, GE's strategy needed to be "retooled and reprogrammed" for the long term; this was the opposite of Welch's more immediate approach.

Acquisition and Expansion Strategies

To regain traction, Immelt considered putting GE Energy in the wind-generated power business, but studies showed that the cost of entry was too big and the potential payback too small. In 2002, the courts auctioned off Enron's segment-leading wind power unit for $358 million. Immelt decided to take advantage of the great price, and the former Enron division became GE's most profitable acquisition. By 2005, when Immelt launched GE's "Ecomagination" campaign, wind revenues were up 300%. That year, Immelt rearranged GE's 11 divisions into a half-dozen "industry-focused" groups.

"Still like [Coach Vince] Lombardi, Welch went out on top."

GE probably makes more acquisitions annually, on average, than any other company. GE buys other businesses based on price, strategic fit and product mix, particularly goods with long-term growth potential. Immelt, who makes more than $9 million a year, is conservative with GE's money. He looks for companies with "product leadership" and the potential for "imagination breakthroughs." Strategically, he buys firms that contribute to GE's organic growth. Because the cost was too high, he decided against acquiring DreamWorks SKG and a National Basketball Association broadcast package. Yet, he and GE's accounting department found value and synergy in buying the Weather Channel in 2008.

"'Welch,' wrote one scribe, 'was revered, while Immelt is adored'."

Immelt emphasizes applied research, so GE runs research-and-development facilities in Shanghai, Bangalore, Munich and scenic Niskayuna, New York. To promote interdepartmental relationships, its research center holds crosscultural meetings with GE technologists and marketers to foster new products. For example, GE profitably applied its health care imaging technology to baggage scanning. The company made further inroads into the green economy with its wind and solar panel units. It began working in 2004 to reduce its greenhouse gas emissions and a year later launched a major initiative to produce energy-efficient products using specific metrics for revenue, R&D, gas emissions and water conservation. GE worked with environmental groups, some of which were critical of its previous record. By 2008, it had "75 notable ecoproducts," including a hybrid locomotive and a smart electrical grid. That year, revenue from its wind business topped $6 billion and Warren Buffett's Berkshire Hathaway bought $3 billion in GE preferred stock.

Core Values

Immelt prioritizes seeking daily knowledge and keeping events in perspective. He works energetically and optimistically, building his own self-confidence and trying to foster trust among his co-workers. His personal philosophy is to "leverage" core strengths, while overcoming weaknesses. He extends this viewpoint to employees through the curriculum at GE's corporate training facility, the GE Learning Center in Crotonville, New York. By the time Immelt had been CEO for seven years, GE was spending $1 billion yearly on corporate training for its 300,000 global employees. This could be the world's largest training budget. Acting on his belief in developing employees' and managers' talent, Immelt spends 30% of his time on HR issues.

"Immelt knew in the deepest reaches of his mind that he could ably lead the conglomerate well into the 21st century."

Immelt cites integrity, performance and change as GE's core values. GE promotes from within and values people who want to help others. Unlike Welch, Immelt coaches executives himself and he does not punish managers who miss their performance numbers in tough markets. However, Immelt has "zero-tolerance" for ethics violations. When he addresses the 180 GE officials who attend its annual senior management meeting, he reminds them about the primacy of these standards: One strike and you are out. To protect GE's image, and maintain corporate and individual integrity, the company's code of conduct mandates respecting applicable laws and regulations, being honest, avoiding conflicts of interest, using fair employment practices, striving for a safe workplace and recognizing ethical practices among employees.

> "At the macrolevel, I think learning is going to bifurcate society." [– Jeff Immelt]

GE uses project teams to reinforce shared goals, foster individual development and match business goals with the corporate culture. It fosters an internal value-based culture because that works. Companies with established performance cultures have 11% higher stockholder returns than firms without this cultural attribute, says McKinsey research. GE promotes its "performance culture" internally and with acquisitions. It emphasizes the way employees' efforts serve customers. GE prioritizes simplifying manufacturing processes, while delivering value with high-quality products at the best possible – but not necessarily the lowest – cost.

GE: The Growth Company

GE grows through acquisitions, expansion and hard work. Immelt recognized that participating in a global economy would change the geography of GE's business, making India, China and other emerging countries very important. This larger competitive environment generated the need for tighter cost controls and a new business mix. Immelt forged a fresh acquisitions strategy leading in 2003 to the $9.5 billion purchase of Amersham (medical diagnostics and research) and Universal Studios. Since Immelt became CEO, GE has spent $80 billion acquiring companies, and has sold $35 billion in assets.

> "For GE, the smart grid is its future today the same way the light bulb was the company's future more than 100 years ago."

To maintain its growth culture, GE emphasizes training, customer service and quality goods. It also recognizes the positive benefits of change. When the rising cost of raw materials pushed profits down in 2007, Immelt sold GE Plastics, where he had once worked, for $11.6 billion to Saudi Basic Industries. GE Plastics' profits were down 40%, though sales were off only 3%. Immelt made this difficult decision because it was best for the company. He sold GE's insurance business and plans to divest its iconic appliance division. He has said that when he retires, GE – the global competitor – will be comparable to an entirely different set of peer companies than when he became CEO.

> "Immelt believes that problems can be solved and mistakes can be overcome if their occurrences are kept to a minimum."

GE research conducted as part of its Six Sigma program found that companies which grow "at least three times the rate of the GDP" share certain traits: Their leaders are clear thinkers who carry out their strategies through definite actions, take risks on people and ideas, build loyalty by using committed teams and develop expertise in specific areas, giving them the confidence to develop new techniques or products. GE incorporated these shared traits into its HR training and began rating people in each area to increase employees' ability to push new company-wide initiatives. GE employees should persist if they believe in a new concept. Immelt recognizes the value of people pushing past their "safe zones" to champion new ideas. He acknowledges that he should be working outside his zone more often to lead change. GE also involves customers in planning future change by having them participate in "dreaming sessions," similar to brainstorming meetings, with GE executives.

> "Business can change as long as the values remain."

Immelt's growth plan for GE is based on globalization, commercial excellence, customer service, technology, innovation and new leaders who promote growth. When Immelt diagrams GE's growth process, he draws a circle that links all of these elements but has no starting point. That configuration has worked well under his leadership. During his first six years as CEO, GE's annual revenues grew "from $110 billion to $175 billion" and earnings increased from "$10 billion to $23 billion."

Shared Knowledge

Jack Welch lauded GE's learning culture and drove continuous employee education. Immelt expanded this core GE idea, along with Welch's emphasis on asking managers to develop best practices. Immelt tries to hire quick learners, because they make good leaders. He says all the "great CEOs" he knows are involved in continuous learning. Companywide, GE makes internal education available in formal, semiformal and informal settings. Its Crotonville Leadership Center has 16 levels of study, including three for executives. Thousands of GE employees attend courses there annually. Top company executives, who also serve as mentors, frequently teach the classes.

> "Leadership is about confidence. I always knew I could do this job." [– Jeff Immelt]

Looking to the future, GE has a new global expansion strategy based on fulfilling scarcity and need. Instead of emphasizing selling consumer goods in emerging economics, GE will focus on supplying technological equipment for developing energy infrastructure. By 2008, countries outside the U.S. generated 50% of GE revenues; nondomestic growth was twice as much as domestic growth. Before 2015, GE strategists project, developing countries will need more than $3 trillion in infrastructure investments. Immelt believes GE is better positioned and better able than other companies to capitalize on this exceptional opportunity.

About the Author

David Magee is the author of *How Toyota Became #1*; *Turnaround: How Carlos Ghosn Rescued Nissan*; *The John Deere Way* and *Ford Tough.*