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## GE's Growth Strategy: The Immelt Initiative

In February 2006, after four and a half years in the CEO role, Jeff Immelt felt General Electric (GE) was finally poised for the double-digit growth for which he had been positioning it. Having just announced an 11% increase in revenues for 2005 (including 8% organic growth), he was now forecasting a further 10% revenue increase in 2006. And following 12% growth in earnings from continuing operations in 2005 (with all six businesses delivering double-digit increases), he committed to leveraging the 2006 revenues into an even greater 12% to 17% earnings increase. It was a bold pledge for a \$150 billion global company. (See Exhibit 1 for GE financial data, 2001–2004.)

Yet, for the past year GE's share price had been stuck at around \$35, implying a multiple of around 20 times earnings, only half its price-to-earnings (P/E) ratio in the heady days of 2000. (See Exhibit 2 for GE's 10-year share price history.) It frustrated Immelt that the market did not seem to share the belief that he and his management team had in his growth forecasts. "The stock is currently trading at one of the lowest earnings multiples in a decade," he said. "Investors decide the stock price, but we love the way GE is positioned. We have good results and good governance. . . . What will it take to move the stock?"<sup>1</sup>

### Taking Charge: Setting the Agenda

On Friday, September 7, 2001, Immelt took over the reins of GE from Jack Welch, the near-legendary CEO who preceded him. Four days later, two planes crashed into the World Trade Center towers, and the world was thrown into turmoil. Not only did 9/11 destabilize an already fragile post-Internet-bubble stock market, but it also triggered a downturn in an overheated economy, leading to a fall in confidence that soon spread into other economies worldwide.

After the chaos of the first few post-9/11 days during which he checked on GE casualties, authorized a \$10 million donation to the families of rescue workers, and dispatched mobile generators and medical equipment to the World Trade Center, on September 18 Immelt finally focused on reassuring the financial markets by purchasing 25,000 GE shares on his personal account. Three days later, he appeared before a group of financial analysts and promised that 2001 profits would grow by 11% and by double digits again in 2002. As impressive as such a performance might have appeared, it was less than Welch's expansive suggestion in the heady days of 2000 that GE's profits could grow at 18% per annum in the future.<sup>2</sup> The net result was that by the end of Immelt's first week as CEO, GE's shares had dropped 20%, taking almost \$80 billion off the company's market capitalization.

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To make matters worse, as the year wore on, a scandal that had been engulfing Enron finally led to that company's bankruptcy. Soon, other companies were caught up in accusations of financial manipulation, including Tyco, a company that had billed itself as a "mini GE." Again, the market punished GE stock, concerned that its large and complex operations were too difficult to understand.

Beyond all this immediate market pressure, Immelt was acutely aware that he stood in the very long shadow cast by his predecessor, Welch. During his 20 years as CEO, Welch had built GE into a highly disciplined, extremely efficient machine that delivered consistent growth in sales and earnings—not only through effective operations management that resulted in organic growth (much of it productivity-driven) of 5% annually, but also through a continuous stream of timely acquisitions and clever deal making. This two-pronged approach had resulted in double-digit profit increases through most of the 1990s.

The consistent reliability of GE's growth had created an image in shareholders' minds of a powerful machine that could not be stopped and earned the company a significant premium over price/earnings multiples in the broad stock market. As a result, over two decades, GE had generated a compound annual total return to shareholders of more than 23% per annum through the 1980s and 1990s. (See Exhibit 3 for summary GE financials, 1981–2000.) But Immelt was very conscious that he could not hope to replicate that performance by simply continuing the same strategy. "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," he said. "It would be more driven by innovation, and a premium would be placed on companies that could generate their own growth."<sup>3</sup>

### *Building on the Past, Imagining the Future*

While recognizing the need for change, Immelt saw little need to challenge the basic business model on which GE had operated for decades. Like his predecessor, he bristled at the characterization of GE as a conglomerate, preferring to see it as a well-integrated, diversified company. On taking charge, he explained:

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. . . . What we have is a company of diverse benefits whose sum is truly greater than the parts; a company executing with excellence despite a brutal global economy. . . . We believe GE is different, and one of the things that makes us different is that—in good times and in bad—we deliver. That is who we are.<sup>4</sup>

Immelt committed to building on what he saw as the core elements of the company's past success: a portfolio of strong businesses, bound through a set of companywide strategic initiatives and managed by great people in a culture that was performance driven and adaptive. It was a source of competitive advantage that Immelt felt was not easily imitated. "It requires financial and cultural commitments over decades," he said.

Having committed to GE's fundamental business model, Immelt wasted little time in articulating a new vision of growth based on using GE's size and diversity as strengths rather than weaknesses. He wanted to take the company into "big, fundamental high-technology infrastructure industries," places where he felt GE could have competitive advantage and where others could not easily follow. He elaborated this into a vision of a global, technology-based, service-intensive company by defining a growth strategy based on five key elements:

- **Technical leadership:** Believing that technology had been at GE's core since the day Thomas Edison founded the company, Immelt committed to technical leadership as a key driver of future growth.
- **Services acceleration:** By building service businesses on its massive installed base of aircraft engines, power turbines, locomotives, medical devices, and other hardware, Immelt believed GE could better serve customers while generating high margins and raising entry barriers.
- **Commercial excellence:** Reflecting his own sales and marketing background, Immelt committed to creating a world-class commercial culture to overlay the engineering bias and financial orientation of GE's dominant business approach under Welch.
- **Globalization:** Building on an old Welch initiative, Immelt committed to expanding GE's sourcing strategy and market access worldwide, in particular focusing on its underexploited opportunities in developing world countries such as China and India.
- **Growth platforms:** Finally, he recognized that significant resource reallocation would be necessary to build new business platforms capitalizing on "unstoppable trends" that would provide growth into the future.

Because plans at GE always came with measurable goals attached, Immelt committed to increasing the company's organic growth from its historical 5% annual rate to 8% and, beginning in 2005, to generating consistent double-digit earnings growth.

### *Investing through the Down Cycle*

Perhaps predictably, the press was skeptical of the notion that a \$130 billion company could grow at two to three times the global gross national product (GNP) rate. Still, there was no shortage of advice for the new CEO in his attempt to make the company do so. Some suggested he should sell off the mature lighting and appliances businesses.<sup>5</sup> Others proposed bold expansions—into the hospital business, for example.<sup>6</sup> And as always, there were calls for GE to break up the company and sell off its component businesses.<sup>7</sup> But Immelt insisted GE had great businesses that provided a strong foundation for the future. All he planned to do was rebalance and renew the portfolio, then drive growth from the revitalized base.

Within weeks of taking charge, he started making significant investments to align GE's businesses for growth. Seeing opportunities to expand its NBC broadcast business to capture the fast-growing Hispanic advertising market, for example, the company acquired the Telemundo and Bravo networks. And its power-generation business acquired Enron's wind energy business as a new platform that management felt was positioned for long-term growth and high returns in the future.

In addition to these and other natural business extensions, management identified whole new segments that provided a stronger foundation for innovation and where future market opportunities would drive rapid growth. For example, in security systems, GE acquired Interlogix, a medium-sized player with excellent technology, and in water services, it bought BetzDearborn, a leading company with 2,000 sales engineers on the ground.

Internally, Immelt also lost little time in making big financial commitments to the growth strategy. Within his first six months, he committed \$100 million to upgrade GE's major research and development (R&D) facility at Nishayuna in upstate New York. In addition to building new laboratories, the investment provided for new meeting centers on Nishayuna's 525-acre campus, creating an environment where business managers and technologists could meet to discuss priorities.

Scott Donnelly, a 40-year-old researcher who led GE's overall R&D activity, said, "GE is not the place for scientists who want to work on a concept for years without anybody bothering them. Here scientists can do long-term research, but they have to be willing to spar with the marketing guys. This is the best of both worlds."<sup>8</sup>

Although Immelt was willing to increase his commitment to R&D, he pushed to change the balance of work being done. In addition to developing technologically sophisticated new products, he wanted to commit more resources to longer-term research that might not pay off for a decade or more. In the past, limited commitment to such long-term research had frustrated many of the center's science and engineering Ph.Ds. ("Science was a dirty word for a while," said Anil Duggal, a project leader on the advanced lighting project. "Now it's not.")<sup>9</sup> In selecting the long-term projects for funding, Donnelly whittled down more than 2,000 proposals and then worked with researchers to come up with the technologies that could transform a business. From the 20 big ideas his staff proposed, Donnelly had them focus on a group of five, representing fields as diverse as nanotechnology, advanced propulsion, and biotechnology.

Beyond its historic Nishayuna R&D facility, in 2000 the company had established a center in Bangalore, India. To build on that global expansion, in 2002 Immelt authorized the construction of a new facility in Shanghai, China. And as the year wore on, he began talking about adding a fourth global facility, probably in Europe.<sup>a</sup> Despite the slowing economy, he upped the R&D budget from \$286 million in 2000 to \$327 million in 2002. When asked about this increase in spending during such a difficult time for the company, he said, "Organic growth is the driver. Acquisitions are secondary to that—I can't see us go out and pay a start-up \$100 million for technology that, if we had just spent \$2 million a year for 10 years, we could've done a better job at. I hate that, I just hate that."<sup>10</sup>

Reflecting on his extensive investments in 2002, a year in which the stock dropped a further 39% from its 2001 close, Immelt said:

Financial strength gives us the ability to invest in growth and we have viewed this economic cycle as a time to invest. We've increased the number of engineers, salespeople, and service resources. We will invest more than \$3 billion in technology, including major investments in our global resource centers. We've strengthened our commitment to China, increasing resources there 25% in 2002, and we've increased our presence in Europe. Acquisitions are a key form of investment for us and we have invested nearly \$35 billion in acquisitions over the past two years. They are a key way for us to redeploy cash flow for our future growth.<sup>11</sup>

### *Ongoing Operations: Rigor and Responsiveness*

To fund his strategy, Immelt drew his first source of capital from the sale of underperforming businesses, and the company's struggling insurance business was his prime target for divestiture. But in the depths of an economic downturn, getting good prices for any business was not easy. So the investments needed to drive the company's growth still relied primarily on funds generated by ongoing operations, and Immelt drove the organization to deliver on the market's expectations for current-year performance. Picking up on initiatives launched years earlier, he harnessed well-embedded capabilities such as Six Sigma and digitization to drive out costs, increase process efficiency, and manage resources more effectively.

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<sup>a</sup> In 2003, GE opened its Shanghai research center and broke ground for another center in Siemens's backyard in Munich, Germany. In 2004, its 2,500 researchers worldwide filed for more than 450 patents.

In this tough environment, Immelt's primary operating focus was on cash flow, and he realigned all the powerful tools in GE's toolbox to meet that objective. For example, Six Sigma discipline was applied to reducing the cash tied up in inventory and receivables, while process digitization was focused on sourcing economies and infrastructure efficiencies. By 2002, digitization alone was generating savings of almost \$2 billion of savings a year. As always at GE, initiatives were tied to metrics, with 60% of incentive compensation dependent on cash flow generation. So, despite a tough 2002 economy that held GE's revenue growth to 5%, its cash flow from operations was \$15.2 billion, up 10% on the previous year.

Although this disciplined approach was reminiscent of GE in decades past, Immelt's management style contrasted with Welch's in many ways. First, he recognized that in a post-Enron world, corporate executives faced a more skeptical and often cynical group of critics. For example, an article in *BusinessWeek* suggested, "Increasingly, the Welch record of steady double digit growth is looking less like a miracle of brilliant management and more like clever accounting that kept investors fat and happy in boom times."<sup>12</sup> And *The Economist* opined, "Immelt has had a torrid time since taking over from Jack Welch, GE's former boss, in 2001. Waking from the dreamy 1990s, investors discovered that GE was not, after all, a smooth earnings machine that pumped out profit growth of 16 to 18% a year."<sup>13</sup>

Immelt understood that in such a skeptical environment, there was a need for a CEO to establish much more openness and trust. Since his natural style tended to be open and communicative, he was perfectly comfortable with the idea of increasing the transparency of GE's often complex operations. In July 2002, to make the performance of GE's financial businesses easier to understand, he broke GE Capital into four separate businesses, each with its own balance sheet and explicit growth strategy. He also committed to communicating more frequently and in more detail with investors. "We have the goal of talking about GE externally the way we run it internally," he said. After his first analysts meeting, where everyone got an advance bound copy of the data and forecasts, *BusinessWeek* commented, "That's already a break with the Welch regime where, some say, you were scared to blink in case you missed a chart."<sup>14</sup>

The new CEO also wanted to create a more open and less hard-edged environment within the company. He asked the 2002 class of GE's Executive Development Course (EDC) to study where GE stood in its approach to corporate responsibility.<sup>b</sup> Historically, this was not an issue that had received much attention at GE. Although Welch had always emphasized the importance of integrity and compliance, he had shown little interest in reaching beyond that legal requirement. The several dozen participants in the 2002 EDC visited investors, regulators, activists, and 65 companies in the U.S. and Europe to understand how GE was performing in terms of corporate responsibility. They reported to top management that although the company was ranked in the top five for its financial performance, investment value, and management talent, it was number 72 for social responsibility.

One outcome of the EDC group's report was that Immelt appointed GE's first vice president for corporate citizenship. He tapped Bob Corcoran, a trusted colleague from his days running GE Medical Systems, to lead an effort to ensure that the company was more sensitive and responsive to its broader societal responsibilities. Ever the pragmatist, Immelt saw this as more than just an altruistic response. He believed it was important for the company to remain effective:

To be a great company today, you also have to be a good company. The reason people come to work for GE is that they want to be involved in something bigger than themselves. They

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<sup>b</sup>EDC was the top-level course at GE's renowned Crotonville training center and was reserved for those destined for the most senior echelons of management at GE. As part of their studies, each EDC class was assigned a major corporate issue to study in teams and then report back to GE's Corporate Executive Council.



want to work hard, they want to get promoted, they want stock options. But they also want to work for a company that makes a difference, a company that's doing great things in the world. . . . It's up to us to use our platform to be a good citizen. Because not only is it a nice thing to do, it's a business imperative.<sup>15</sup>

## Rebuilding the Foundation: Beginning a Marathon

As 2003 began, Immelt was not sorry to see the end of his first full year as CEO. Despite all his efforts, 2002 had been a terrible year for the company. Revenues were up only 5% after a 3% decline the prior year. And rather than the double-digit growth he had promised, 2002 earnings increased by only 7%. By year's end the stock was at \$24, down 39% from the year before and 60% from its all-time high of \$60 in August 2000. Having lived through a struggling economy, the post-9/11 chaos, new regulatory demands following the corporate scandals, and an unstable global political situation, Immelt commented, "This was a not a great year to be a rookie CEO."<sup>16</sup>

In the midst of the turmoil, however, he reminded himself of advice he received from his predecessor. "One of the things Jack said early on that I think is totally right is: It's a marathon, it's not a sprint," Immelt recalled. "You have to have a plan, and you have to stick with it. You have to modify it at times, but every day you've got to get out there and play it hard."<sup>17</sup> Entering 2003 with that thought in mind, Immelt continued to drive his growth-strategy agenda.

### *Rebalancing the Portfolio*

The year turned out to be an important one in the new CEO's efforts to rebuild the business portfolio on which he would drive GE's growth. Even after completing \$35 billion worth of acquisitions in the previous two years, 2003 became the biggest acquisition year in GE's history with total commitments exceeding \$30 billion. The first megadeal came when the company decided to bid for the Universal entertainment business of French conglomerate Vivendi. Defying those who suggested that GE should exit the volatile media business, Immelt pushed ahead with the acquisition, which included Universal's film library, film studio, cable services, and theme park. "This is about stuff we know how to do," he said. "We understand the nuances of this industry and where it's going."<sup>18</sup>

Immelt's vision was to create a media business that was better positioned for a digital future. The NBC franchise, although strong, was being buffeted by changes in media distribution that saw the share of broadcast television's market shrinking. Universal added content, production facilities, cable distribution, and a strong management team—all assets that Immelt felt could greatly strengthen GE's core business. On top of that, the \$5.5 billion up-front purchase price for assets valued at \$14 billion was seen as an excellent buy.

Two days after announcing final terms in its purchase of Vivendi-Universal Entertainment (VUE), GE announced an agreement to purchase Amersham, a British life sciences and medical diagnostic company that Immelt had been pursuing for many months. He believed that health care was moving into an era of biotechnology, advanced diagnostics, and targeted therapies and combining GE's imaging technology with Amersham's pharmaceutical biomarkers, for example, could create whole new ways of diagnosing and treating diseases. At \$10 billion, this was a more expensive acquisition but one that he believed could boost GE's \$9 billion medical products business to a \$15 billion business by 2005. More important, he saw it as an engine of growth that would continue for years and even decades into the future. In his mind, it was a classic "growth platform."

The real issue that many saw in the deal, however, was less about strategic fit than organizational compatibility. The concern was that the highly innovative, science-oriented talent that Amersham had developed in the U.K. would not thrive when swallowed up by GE. It was the same criticism that Immelt had heard when critics wondered whether the creative talent in Universal's film studios would tolerate the management discipline for which GE was so well-known. But the idea of bringing creative and innovative outsiders into GE was part of the appeal to Immelt. He saw people like Sir William Castell, Amersham's CEO, as major assets who could help develop in GE the culture of innovation that he longed to build. To emphasize the point, he put U.K.-based Castell in charge of the combined \$14 billion business renamed GE Health Care and made him a vice chairman of GE. For the first time, one of the company's major businesses would be headquartered outside of the United States, a move that Immelt felt fit well with his thrust of globalization.

The other great challenge in the ongoing task of portfolio rebalancing was that GE was finding it difficult to dispose of some of the assets it no longer regarded as vital. While the recession provided lots of buying opportunities if one was willing to step up and invest, it was hardly an ideal environment in which to be selling businesses. For GE, the biggest challenge was to find buyers for the struggling insurance businesses. Although its 2003 sale of three of its major insurance entities had freed up \$4.5 billion in cash, the company was still trying to find a buyer for Employers Reinsurance Company (ERC), a business generating huge ongoing losses due to its poor underwriting in the late 1990s.<sup>c</sup> And several other GE businesses from motors to super adhesives remained on the blocks with no bidder offering a price the company was willing to accept. Part of the problem was that bidders felt that if GE had run the business for years, most of the potential savings had already been extracted, making the units being offered less attractive for a company that wanted to squeeze out costs.

To communicate the major portfolio transformation he had undertaken to date, in 2003 Immelt began describing GE's businesses as "growth engines" and "cash generators" (see **Exhibit 4**). He characterized the former, which accounted for 85% of earnings, as market leaders that could grow at 15% annually through the business cycles with high returns. The latter were acknowledged as being more cyclical in nature but with consistently strong cash flows.

### *Focusing on Customers, Emphasizing Services*

In addition to his portfolio changes, the new CEO kept working on his internal growth initiatives. As an ex-salesman, Immelt had always directed attention toward the customer, and one of his priorities was to redirect GE's somewhat internal focus—an unintended by-product of Welch's obsession with operating efficiency and cost-cutting—toward the external environment. "In a deflationary world, you could get margin by working productivity," he said. "Now you need marketing to get a price."<sup>19</sup>

In 2001, among his first appointments had been Beth Comstock, named as GE's first chief marketing officer. Next, to drive the change deeper, he redeployed most of GE's extensive business development staff into marketing roles, then asked each of GE's businesses to appoint a VP-level marketing head, many of whom had to be recruited from the outside. "We hired literally thousands of marketers," he said. "For the best, we created the Experienced Commercial Leadership Program, the kind of intensive course we've long offered in finance. That's 200 people a year, every year."<sup>20</sup>

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<sup>c</sup>After taking a \$1.4 billion write-off in 2004 due to claims relating to asbestos and September 11, the company finally sold ERC for \$8.5 billion in 2005, but only after booking another \$2.9 billion insurance loss.

In 2003, with strong marketing capabilities now embedded in the businesses, he formed a Commercial Council to bring GE's best sales and marketing leaders together in a forum that could transfer best practice, drive initiatives rapidly through the organization, and develop a world-class commercial culture. Chaired by Immelt personally, the council's agenda included developing world-class marketing capabilities, taking Six Sigma to customers, and driving sales force effectiveness. As always, metrics were attached. Using a tool called Net Promoter Score (NPS), the company began to track changes in customer attitudes and loyalty, tying compensation to improvements in NPS scores. "If we can create a sales and marketing function that's as good as finance at GE, I'll change this company," he said. "But it will take ten years to drive these changes."<sup>21</sup>

Immelt also believed GE could significantly strengthen its customer relationships by becoming more of a services provider. In 2002, \$23 billion of the company's \$132 billion revenue came from services, but with its massive installed base of more than 100,000 long-lived jet engines, locomotives, power generators, and medical devices in the field, the CEO saw the potential service annuity stream. As someone who had increased GE Medical Systems' share of service business from 25% to 42% in the three and a half years he headed that operation, Immelt was convinced that services could grow much faster than hardware and at much higher profit levels. To underscore his belief, whenever businesses developed important service contracts—GE Transportation's sale of its IT-based dispatch system to railroad customers to increase locomotive utilization, for example—he celebrated them very publicly.

Yet despite all these efforts, the reality was that just as many of GE's products were becoming commodities, its service contracts were increasingly going to the lowest bidder and not providing the barriers to entry they once did. GE's solution was to make itself indispensable by building enduring relationships based not only on offering its products and services but also its expertise.

One initiative, dubbed "At the Customer, For the Customer" (ACFC, as it soon became known), was designed to bring GE's most effective internal tools and practices to bear on its customers' challenges. Immelt used health care as an example of what GE could offer. With cost control being a major concern as health-care expenditures headed toward 20% of GDP, Immelt felt that GE could help its customers, only 50% of which were profitable. "Through our health care services agreements, we are the hospitals' productivity partner," he said. "We completed more than 6,000 Six Sigma projects with health care providers in 2002 and these projects are improving the quality of patient care and lowering costs."<sup>22</sup> In addition, the company began bundling its services and linking its products to clinical information technology. It also added a health-care financial services business to the GE Health Care organization to provide it with specialized financing support. "The phrase 'solutions provider' is so overused it makes us all snore," said Immelt. "I want GE to be essential to those whom we serve, a critical part of the profit equation, a long-term partner, a friend."<sup>23</sup>

### *Driving for Growth: New Platforms, New Processes*

Beginning in 2002, Immelt had challenged his business leaders to identify growth business platforms with the potential to generate \$1 billion in operating profit within the next few years. In response, six opportunities had emerged: health-care information systems, security and sensors, water technology and services, oil and gas technology, Hispanic broadcasting, and consumer finance. By the end of 2002, these businesses represented \$9 billion in revenue and \$2 billion in operating profit. But, as Immelt pointed out, at a 15% annual organic growth rate, they were on track to become a much larger portion of GE's future business portfolio.

With 2003's major acquisitions such as Amersham and VUE, the company added new growth platforms such as biosciences and film/DVD to its list. Through other acquisitions, renewable energy



(wind, solar, biomass), coal gasification, and supply chain financing became elements of GE's new growth platform. And the emphasis on services built a series of businesses in environmental services, nondestructive testing, and asset optimization that were also seen as having high growth potential.

In defining and then building these growth platforms, GE followed its normal disciplined approach. First, management segmented the broad markets and identified the high-growth segments where they believed they could add value. Then, they typically launched their initiative with a small acquisition in that growth platform. After integrating it into GE, the objective was to transform the acquisition's business model by applying GE growth initiatives (services and globalization, for example) that could leverage its existing resources and capabilities. As a final step, the company applied its financial muscle to the new business, allowing it to invest in organic growth or further acquisitions. The objective was to grow it rapidly while simultaneously generating solid returns.

GE's expansion into Hispanic broadcasting provides an example of the process. After identifying this as a fast-growth segment in its broadcast business, the company acquired Telemundo, the number two player in the Hispanic entertainment segment. Believing that the Hispanic demographic would drive growth, management felt that it would be able to apply GE's capabilities to fix Telemundo's struggling business model. Through 2002 and 2003, NBC offered its management and programming expertise, helping Telemundo to evolve from purchasing 80% of its content to producing two-thirds of its own broadcast material. In the second half of 2003, Telemundo grew its ratings by 50% over the first half and captured 25% of the Hispanic advertising market. The company expected revenues to grow more than 20% in 2004.

As Immelt summarized, "A key GE strength is our ability to conceptualize the future, to identify unstoppable trends, and to develop new ways to grow. The growth platforms we have identified are markets that have above average growth rates and can uniquely benefit from GE's capabilities. . . . Growth is *the* initiative, *the* core competency that we are building in GE."<sup>24</sup>

### *Aligning Management: New People Profiles*

The biggest challenge Immelt saw in implementing his agenda was to make growth the personal mission of every one of the company's 310,000 employees worldwide. "If I want people to take more risks, solve bigger problems, and grow the business in a way that's never been done before, I have to make it personal," he said. "So I tell people, 'Start your career tomorrow. If you had a bad year, learn from it and do better. If you had a good year, I've already forgotten about it.'"<sup>25</sup>

As the company began to implement its new growth strategy, the CEO worried that some of his current management team might not have the skills or abilities to succeed in the more entrepreneurial risk-taking environment he was trying to create. Realizing that this implied a massive challenge to develop a new generation of what he termed "growth leaders," he said:

Historically, we have been known as a company that developed professional managers . . . broad problem solvers with experience in multiple businesses and functions. However, I wanted to raise a generation of *growth leaders*—people with market depth, customer touch, and technical understanding. This change emphasizes depth. We are expecting people to spend more time in a business or a job. We think this will help leaders develop "market instincts" so important for growth, and the confidence to grow global businesses.<sup>26</sup>

Beyond changes in career path development that emphasized more in-depth experience and fewer job rotations, GE's HR professionals wanted to identify the new personal competencies that growth leaders would need to exhibit. Benchmarking GE against best practice, they researched the leadership

profiles at 15 large global companies —Toyota and Dell among them—that had grown for more than a decade at three times GDP rates or better. In late 2004, they arrived at a list of five action-oriented leadership traits they would require: an *external focus* that defines success in market terms; an ability to *think clearly* to simplify strategy into specific actions, make decisions, and communicate priorities; the *imagination and courage* to take risks on people and ideas; an ability to energize teams through *inclusiveness and connection with people*, building both loyalty and commitment; and an *expertise* in a function or domain, using depth as a source of confidence to drive change.

To help develop these characteristics, each business created 20 to 30 “pillar jobs”: customer-facing, change-oriented assignments in which growth leaders could be developed in assignments of at least four to five years. The new leadership competencies also became the criteria for all internal training programs and were integrated into the evaluation processes used in all management feedback.

Immelt was also quite involved personally in developing growth leaders on his team. In response to a question about his time utilization, he said, “I’m probably spending 20% of my time with customers, 30% of my time on people, teaching and coaching . . . [and] 10% of my time on governance, working with the board, and meeting with investors. The rest would be time spent on the plumbing of the company, working on operating reviews and strategy sessions.”<sup>27</sup> But, as he regularly pointed out, the time he spent on the “plumbing” in operating reviews and strategy sessions—“touch points,” he called them—was primarily about people development. He was committed to make “every moment a learning opportunity, every activity a source of evaluation.”<sup>28</sup>

### *Funding the Growth: Operating Excellence*

While driving growth, Immelt never forgot that he inherited a great operating company. He did not want long-term growth to distract managers from current performance. “I’ve always worried about a jailbreak,” he said. “How do we make sure people don’t say ‘Jeff doesn’t care about productivity’?”<sup>29</sup> So he insisted that innovation be “funded with an intent to lead, but paid for by increasing productivity.”<sup>30</sup> During 2003, for example, about one-third of the Six Sigma specialists were focused on a new initiative called “cash entitlement.” The target was for GE to be twice as good as competitors on a number of benchmarks such as accounts receivable or inventory turnover. At full potential, Immelt told his team, it would free up an additional \$7 billion in cash.

By 2004, while the drives for cash generation and cost reduction were still in place, Immelt added a new initiative called Lean Six Sigma, which borrowed the classic tools of lean manufacturing and set them to new applications. In its industrial businesses, the focus was on reducing working capital and improving return on equity, while in its commercial finance business it was on margin expansion, risk management, and cost reduction. Through these efforts, in 2003–2004, the company achieved \$2.7 billion in improvement in working capital and expected that kind of progress to continue.

Yet another operating initiative called “simplification” aimed at reducing overhead from 11% of revenue to 8%. Targeting reductions in the number of legal entities, headquarters, “rooftops,” computer systems, and other overhead-type costs not directly linked to growth, the company set a goal of removing \$3 billion of such costs over three years. In the first year, the commercial finance business consolidated into three customer service/operations centers and expected to save \$300 million over three years. In another simplification move, the consumer and industrial business brought its three existing headquarters into one, saving more than \$100 million in structural costs. And the transportation and energy businesses began sharing some IT and operational assets that also reduced structural costs by some \$300 million annually.

## Preparing for Liftoff: Innovation and Internationalization

As 2004 progressed, the worldwide economy gradually started to turn around, and GE began showing signs of more robust growth. By year's end, nine of its 11 businesses had grown their earnings by double digits. For the first time, Immelt sounded confident that the company was finally moving beyond the disappointing results of the previous three years and onto the growth trajectory for which he had been preparing it. In his annual letter to stakeholders in February 2005, he recalled his time as a college football player to draw a sports analogy to GE's recent performance:

GE has "played hurt" for the last few years. . . . So we went to the "training room." These difficult years triggered a critical review of our capabilities, and as a result, we initiated an exciting transformation. We invested more than \$60 billion to create a faster-growing company. We committed to divest \$15 billion of slow-growth assets. We built new capabilities, launched new products, expanded globally and invested in the GE brand. Now the company has begun an era of strong performance. . . . We're back at full strength. This is our time.<sup>31</sup>

To underscore the point, he predicted that GE's "growth engines"—businesses whose earnings growth since 1999 had averaged 15% annually—would generate 90% of the company's earnings in 2005, compared with only 67% in 2000. (See **Exhibit 5** for a representation of the shift.) Due to this transformation of the business portfolio and also the addition of more than a dozen new capabilities from biosciences to renewable energy, Immelt claimed that for the first time in 20 years, GE was positioned to grow its industrial earnings faster than its financial services earnings.

### *Imagination Breakthroughs*

To drive his earlier growth platform challenge deep into the organization, the CEO launched a process he called "imagination breakthroughs," quickly abbreviated to IBs. These were projects—technological innovations, market expansion opportunities, product commercialization proposals, or ideas to create value for customers—that had the potential to generate, over a three-year horizon, at least \$100 million in incremental earnings. The process required each business leader to submit at least three breakthrough proposals a year for review by the Commercial Council. "Imagination Breakthroughs are a protected class of ideas—safe from budget slashers because I've blessed each one," said Immelt. "What we're trying to do is take risks, using my point of view. I have the biggest risk profile and broadest time horizon in the company . . . so I can bring to bear the right risk-taking and time horizon tradeoffs."<sup>32</sup>

A year into the program, 80 IB initiatives had been identified and qualified—half technically based programs and half commercial innovations. Immelt had assigned the company's best people to drive them and had committed \$5 billion over the next three years to fully fund them. In that time, they were expected to deliver \$25 billion of additional revenue growth. By 2005, 25 IBs were generating revenue. "The big difference is that the business leaders have no choices here," Immelt explained. "Nobody is allowed not to play. Nobody can say, 'I'm going to sit this one out.' That's the way you drive change."<sup>33</sup>

Believing that the businesses could initiate 200 such projects over the next year or two, Immelt said, "Our employees want to live their dreams. It is up to me to give them that platform. I can help them take smart risks that will win over time. . . . We aim to be the best in the world at turning small ideas into huge businesses."<sup>34</sup>

### *Of Town Halls and Dreaming*

To stimulate ideas that would drive the imagination breakthroughs, Immelt continued to push his leaders to get out in the field and in touch with the market. Setting the example himself by spending at least five days a month with customers, he began creating forums he called "town hall meetings." Here, several hundred customers would gather together to hear where GE's CEO wanted to take his company, to provide input on that direction, and to suggest how GE could be more helpful to them.

As an outgrowth of these meetings, Immelt decided to create another forum that he described as "dreaming sessions." In these sessions, he engaged in intensive conversations with a group of senior executives drawn from key customers in a particular industry to try to identify major industry trends, their likely implications for them, and how GE might be able to help them. Immelt understood the importance of his own role in these meetings. "If I show up, we'll get six CEOs to show up," he said. "So you don't have to cut through anything else if we all do it together. We can make some high-level tradeoffs that way."<sup>35</sup>

For example, in one meeting with the CEOs and key operating managers of companies in the railroad industry, Immelt spent an afternoon listening to their view of their industry situation, the key trends, and its five- to 10-year outlook. GE's CEO then asked them to think through a number of scenarios including higher fuel prices, a growth in east-west rail shipments due to increasing Chinese imports, and so on. He then challenged them to think through how they would spend \$200 million to \$400 million on R&D at GE. The ensuing debate highlighted, for example, the relative importance of spending on fuel efficiency versus information technology to optimize rail movement planning. But Immelt was careful to note that while the company listened carefully to the input, GE always made its own choices on these investments. "I love customers. I get great insight from them, but I would never let them set our strategy for us," he said. "But by talking to them, I can put it in my own language. Customers always pay our bills, but they will never pick our people or set our strategies."<sup>36</sup>

### *Infrastructure for Developing Countries: A New Growth Market*

In 2004, Immelt's push for globalization also began bearing fruit with revenues from outside the U.S. growing 18% to \$72 billion. Of this, the developing world accounted for \$21 billion, an even more impressive 37% increase on the previous year, leading Immelt to predict that over the next decade, 60% of GE's international growth would come from developing countries. China represented the most visible growth opportunity, but he also planned to expand aggressively into India, Russia, Eastern Europe, Southeast Asia, the Middle East, and South America.

Through the imagination breakthrough program, proposals for improving GE's ways of doing business in the developing world began bubbling up. For example, one plan that would quickly generate \$100 million in sales involved shipping unassembled locomotives to Russia, India, and China, where they would be assembled in local factories and workshops.

Furthermore, through an initiative known as "one GE," the company began creating vertical teams to deliver what it called enterprise selling. For example, companywide enterprise teams had targeted the Olympics in Beijing, Vancouver, and London and were aiming to deliver additional sales of \$1 billion in energy, security, lighting, and health-care products to those venues. And increasingly GE was adopting "company-to-country relationships" in selling infrastructure projects. It was an approach that had helped it book \$8 billion in Middle East orders in 2005, twice the level of 2003.

### *Reorganizing for Efficiency—and Growth*

Driven by such developments, in July 2005, Immelt announced a major reorganization that consolidated GE's 11 businesses into six large units, one of which was GE Infrastructure. Integrating aircraft engines, rail products, water energy, oil and gas, and some financial services, the unit was headed by GE veteran David Calhoun, who aimed to offer one-stop shopping for all infrastructure products and services. Immelt's expectation was that by focusing on the needs of an underserved customer group—the governments of developing countries—GE could tap into investments in developing country infrastructure predicted to be \$3 trillion over the next 10 years.

While one objective of the reorganization was to create savings (expected to be \$400 million in administrative costs alone), Immelt emphasized that a more important goal was to better align the businesses with customer and market needs. But he also made clear that he wanted to create an organization that gave more opportunity for younger growth leaders to drive their businesses. The six new macrobusiness groups—GE Industrial, GE Commercial Financial Services, NBC Universal, GE Health Care, GE Consumer Finance, and GE Infrastructure—would each be led by one of GE's most experienced top executives. But these individuals would be forced to step back more from operations and spend most of their time coaching, developing, and supporting the younger managers who were to be pulled up into the 50-odd profit-responsible units directly under them. It was all part of the company's commitment to developing its growth leaders and the businesses they ran.

### **Going Forward: Immelt's Challenges**

In 2006, Immelt felt that GE was well placed on the growth path he had laid out over four years earlier. Between 2002 and 2005, he had put \$30 billion of divestitures on the block, completed \$65 billion in acquisitions, and made major investments in new capabilities in technology, marketing, and innovation. He now represented GE's growth engine as a linked six-part process (see Exhibit 6). While the components varied little from his original 2001 list of growth elements, he explained the difference: "You've got to have a process. Investors have to see it is repeatable. . . . It took time, though, to understand growth as a process. If I had worked out that wheel-shaped diagram in 2001, I would have started with it. But in reality, you get these things by wallowing in them awhile."<sup>37</sup>

His main challenge now as he saw it was to maintain the growth in this \$150 billion global giant. But to those who felt GE was too big to grow so fast, he had a clear response:

The corporate landscape is littered with companies that allowed themselves to be trapped by size. But GE thrives because we use our size to help us grow. Our depth allows us to lead in big markets by providing unmatched solutions for our customers; our breadth allows us to spread concepts across the company, leveraging one small idea to create big financial gains; and our strength allows us to take the risks required to grow. . . . Our goal is not just to be big, but to use our size to be great.<sup>38</sup>

All he had to do now was convince the financial markets that the changes he had initiated would enable this global giant to deliver on his promise of continued double-digit growth.

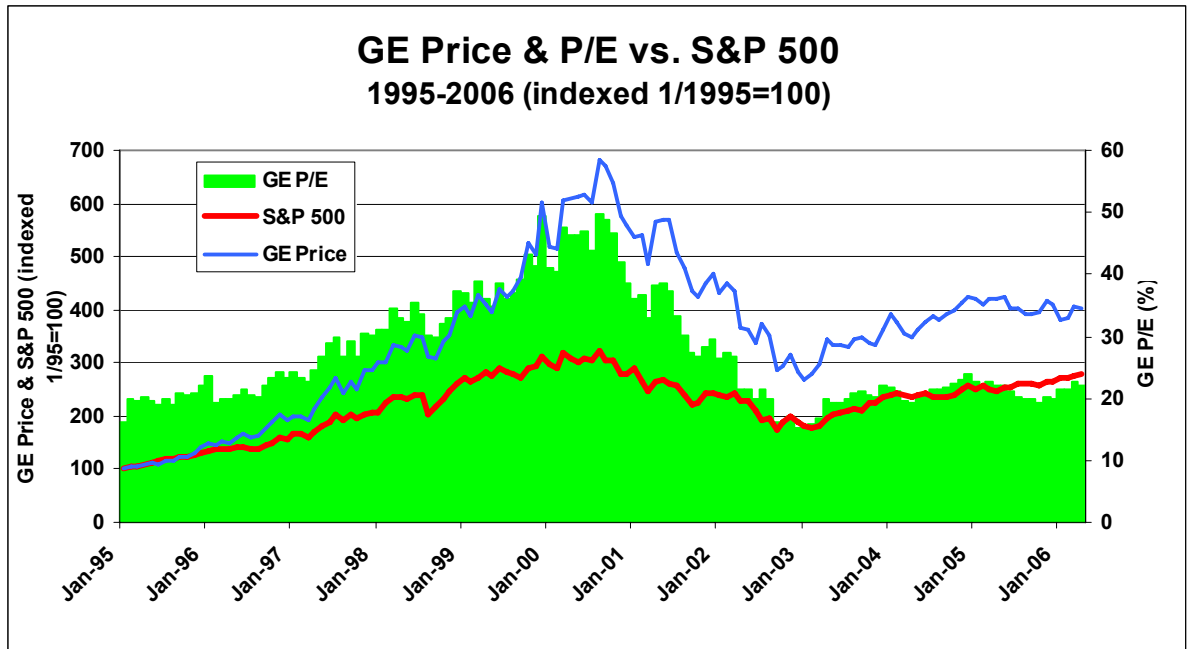


**Exhibit 1** GE's Performance, 2001–2005: Selected Financial Data  
**General Electric Company and Consolidated Affiliates** (in millions, per share amounts in dollars)

<b>Selected Financial Data</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Revenues	\$149,702	\$134,481	\$112,886	\$113,856	\$107,558
Earnings from continuing operations before accounting changes	18,275	16,285	13,766	15,798	12,948
Earnings (loss) from discontinued operations, net of taxes	-1,922	534	2,057	-616	1,130
Earnings before accounting changes	16,353	16,819	15,823	15,182	14,078
Cumulative effect of accounting changes	—	—	-587	-1,015	-287
Net earnings	16,353	16,819	15,236	14,167	13,791
Dividends declared	9,647	8,594	7,759	7,266	6,555
Return on average shareowners' equity (a)	17.60%	17.60%	19.60%	27.20%	24.70%
Per share					
Earnings from continuing operations before accounting changes—diluted	\$ 1.72	\$ 1.56	\$ 1.37	\$ 1.58	\$ 1.29
Earnings (loss) from discontinued operations—diluted	-0.18	0.05	0.2	-0.06	0.11
Earnings before accounting changes—diluted	1.54	1.61	1.57	1.51	1.4
Cumulative effect of accounting changes—diluted	—	—	-0.06	-0.1	-0.03
Net earnings—diluted	1.54	1.61	1.51	1.41	1.37
Earnings from continuing operations before accounting changes—basic	1.73	1.57	1.37	1.59	1.3
Earnings (loss) from discontinued operations—basic	-0.18	0.05	0.21	-0.06	0.11
Earnings before accounting changes—basic	1.55	1.62	1.58	1.52	1.42
Cumulative effect of accounting changes—basic	—	—	-0.06	-0.1	-0.03
Net earnings—basic	1.55	1.62	1.52	1.42	1.39
Dividends declared	0.91	0.82	0.77	0.73	0.66
Stock price range	37.34–32.67	37.75–28.88	32.42–21.30	41.84–21.40	52.90–28.25
Year-end closing stock price	35.05	36.5	30.98	24.35	40.08
Total assets of continuing operations	626,586	618,241	503,610	441,768	373,550
Total assets	673,342	750,507	647,828	575,236	495,012
Long-term borrowings	212,281	207,871	170,309	138,570	77,818
Shares outstanding—average (in thousands)	10,569,805	10,399,629	10,018,587	9,947,113	9,932,245
Shareowner accounts—average	634,000	658,000	670,000	655,000	625,000
Employees at year-end					
United States	161,000	165,000	155,000	161,000	158,000
Other Countries	155,000	142,000	150,000	154,000	152,000
Total Employees	316,000	307,000	305,000	315,000	310,000

Source: GE 2005 Annual Report.

Exhibit 2 GE Stock Price and P/E Multiple vs. S&P 500 Performance, 1995–2005



Source: Thomson Datastream International.

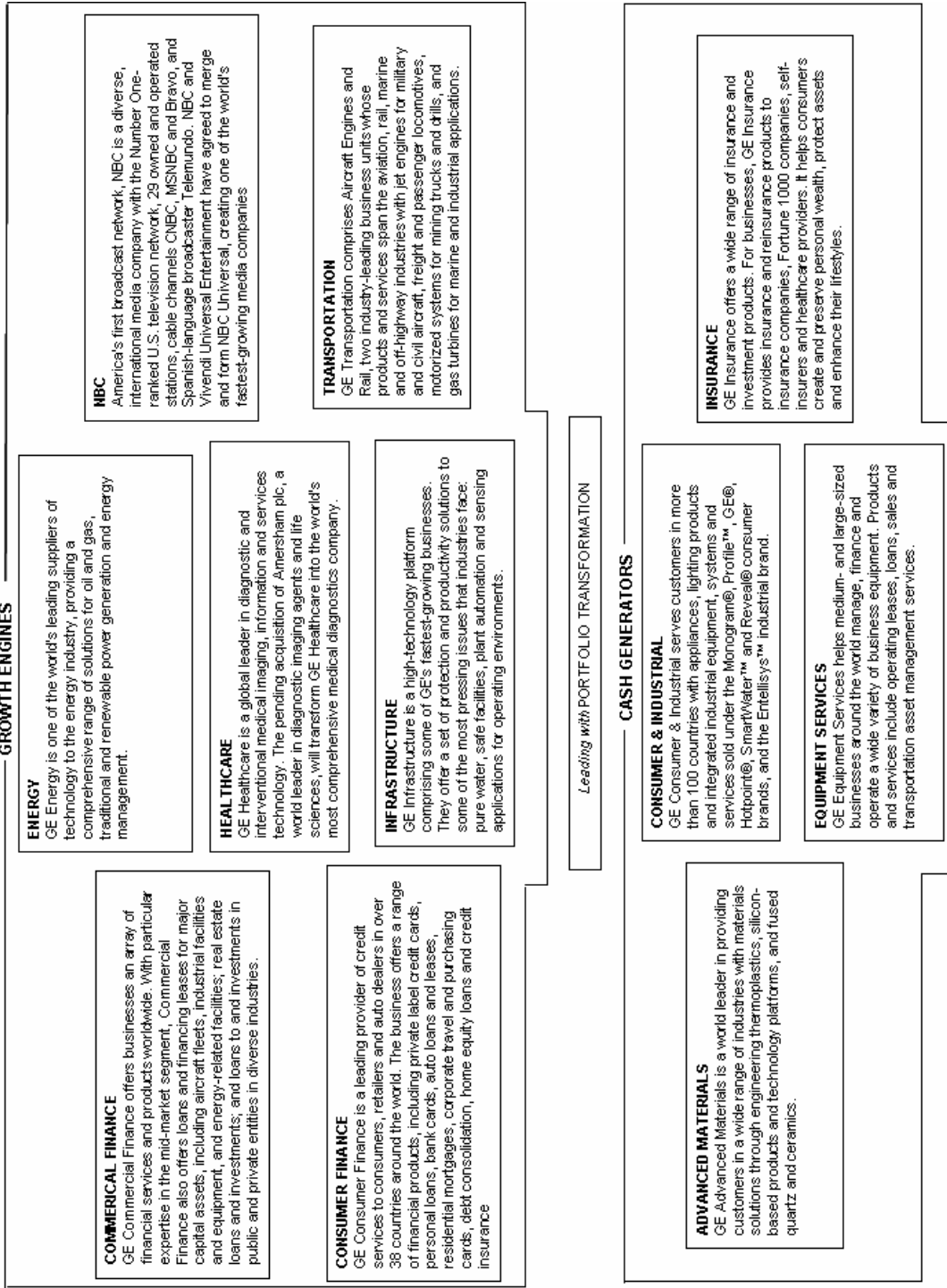
**Exhibit 3 GE Financial Performance, 1981–2000 (\$ millions)**

	2000	1999	1998	1997	1996	1991	1986	1981
<i>General Electric Company &amp; Consolidated Affiliates</i>								
Revenues	\$129,853	\$111,630	\$100,469	\$90,840	\$79,179	\$51,283	\$36,725	\$27,240
Earnings from continuing operations	12,735	10,717	9,296	8,203	7,280	3,943	3,689	N/A
Loss from discontinued operations	--	--	--	--	--	492	N/A	N/A
Net earnings	12,735	10,717	9,296	8,203	7,280	2,636	2,492	1,652
Dividends declared	5,647	4,786	4,081	3,535	3,138	1,808	1,081	715
Earned on average shareowners' equity	27.5%	26.8%	25.7%	25.0%	24.0%	12.2%	17.3%	19.1%
Per share:								
Net earnings	3.87	3.27	2.84	2.50	2.20	2.55	2.73	N/A
Net earnings—diluted	3.81	3.21	2.80	2.46	2.16	1.51	N/A	N/A
Dividends declared	1.71	1.47	1.25	1.08	0.95	1.04	1.18	N/A
Stock price range <sup>a</sup>	181.5-125.0	159.5-94.3	103.9-69.0	76.6-47.9	53.1-34.7	78.1-53.0	44.4-33.2	69.9-51.1
Total assets of continuing operations	437,006	405,200	355,935	304,012	272,402	166,508	84,818	20,942
Long-term borrowings	82,132	71,427	59,663	46,603	49,246	22,602	100,001	1,059
Shares outstanding—average (in thousands)	3,299,037	3,277,826	3,268,998	3,274,692	3,307,394	1,737,863	912,594	227,528
Employees at year-end:								
United States	168,000	167,000	163,000	165,000	155,000	173,000	302,000	N/A
Other countries	145,000	143,000	130,000	111,000	84,000	62,000	71,000	N/A
Discontinued operations (primarily U.S.)	--	--	--	--	--	49,000	N/A	N/A
Total employees	313,000	310,000	293,000	276,000	239,000	284,000	373,000	404,000

Source: GE annual reports, various years.

<sup>a</sup>Price unadjusted for four 2-for-1 stock splits during the period.

**Exhibit 4 GE Portfolio: Growth Engines and Cash Generators**



As of January 1, 2004, GE has reorganized its 13 businesses into 11 focused on markets and customers—seven Growth Engines, which consistently generate strong cash flow and grow earnings in an expanding economy. strengths in technology, cost, services, global distribution and capital efficiency; and four Cash Generators, which consistently generate strong cash flow and grow earnings in an expanding economy.

This chart reflects the most significant changes: the combination of Aircraft Engines and Rail into GE Transportation; the combination of Industrial Systems and Consumer Products into Consumer & Industrial, with portions of Industrial Systems moving to other businesses; and the formation of Infrastructure from portions of Industrial Systems and Specialty Materials. Results for 2003 in this annual report are reported on the 13-business basis in effect in 2003.

Source: GE 2003 Annual Report, p. 6.

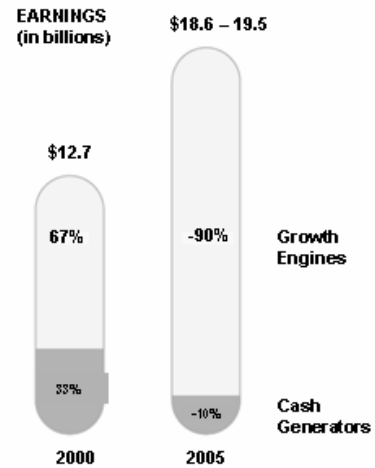
Exhibit 5 GE's Representation of its Portfolio Transformation, 2000–2006

**Portfolio Transformation**

GE has added more than a dozen new capabilities to its seven Growth Engines, which should generate approximately 90% of GE's earnings in 2005, substantially more than five years ago. The Growth Engines—Transportation, Energy, Healthcare, NBC Universal, Infrastructure, Commercial Finance and Consumer Finance—are robust, capital-effective businesses with leadership positions for sustained double-digit earnings and cash flow growth.

**New Growth Capabilities**

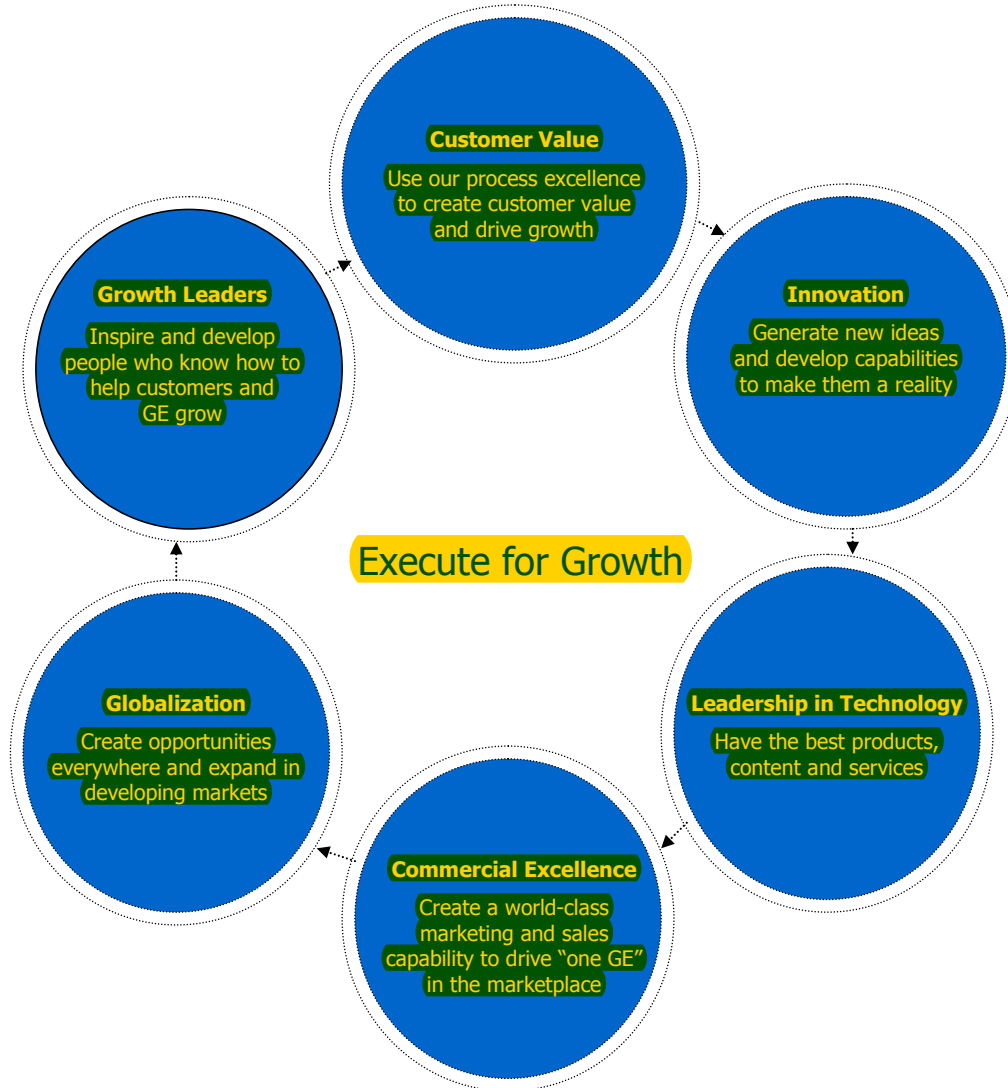
- Biosciences**
- Film + DVD
- Healthcare Information Technology
- Renewable Energy (Wind, Solar, Biomass)
- Coal Gasification
- Water
- Security
- Hispanic Television
- Oil & Gas Exploration Technology
- Services (Asset Optimization, Environmental Services, Non-Destructive Testing)
- "Vertical" Financing
- Full Supply-Chain Financing
- Real Estate Operations
- Global Mortgage



Source: GE 2004 Annual Report, p. 4.



Exhibit 6 **GE Growth Strategy: Core Elements, 2005 Version**



**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: GE 2005 Annual Report.

## Endnotes

- <sup>1</sup> GE Annual Report, pp. 4, 12.
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- <sup>5</sup> Rachel Silverman, "GE Goes Back to the Future," *The Wall Street Journal*, May 7, 2002, p. B1.
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- <sup>7</sup> "Solving GE's biggest problems," *The Economist*, October 26, 2002, p. 55.
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- <sup>10</sup> Robert Buder, "GE Finds Its Inner Edison," *Technology Review*, October 2003, pp. 46–50.
- <sup>11</sup> Amy Stone, "GE Investors Saying 'Jack Who?'" *BusinessWeek On-Line*, May 9, 2003.
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- <sup>13</sup> "Business: The Hard Way; General Electric," *The Economist*, October 18, 2003, p. 60.
- <sup>14</sup> Diane Brady, "Welcome to the Frying Pan, Jeff," *BusinessWeek*, October 8, 2001, p. 82.
- <sup>15</sup> Mark Gunther, "Money and Morals at GE," *Fortune*, November 15, 2004, pp. 176–182.
- <sup>16</sup> GE 2002 Annual Report, p. 5.
- <sup>17</sup> John A. Byrne, "The Fast Company Interview: Jeff Immelt," *Fast Company*, July 2005, pp. 60–65.
- <sup>18</sup> Diane Brady, "Why GE Went For a Little Glitz," *BusinessWeek*, September 15, 2003, p. 44.
- <sup>19</sup> Jeffery R. Immelt, "Growth as a Process," *Harvard Business Review*, June 2006, p. 64.
- <sup>20</sup> Ibid.
- <sup>21</sup> Ibid.
- <sup>22</sup> Ibid.
- <sup>23</sup> GE 2002 Annual Report, p. 13.
- <sup>24</sup> GE 2003 Annual Report, p. 9.
- <sup>25</sup> Jeffery R. Immelt, "Growth as a Process," *Harvard Business Review*, June 2006, p. 70.
- <sup>26</sup> Ibid.
- <sup>27</sup> John A. Byrne, "The Fast Company Interview: Jeff Immelt," *Fast Company*, July 2005, pp. 60–65.
- <sup>28</sup> GE 2005 Annual Report, p. 11.
- <sup>29</sup> Jeffery R. Immelt, "Growth as a Process," *Harvard Business Review*, June 2006, p. 64.
- <sup>30</sup> GE 2005 Annual Report, p. 7.
- <sup>31</sup> GE 2002 Annual Report, p. 4.

<sup>32</sup> Jeffery R. Immelt, "Growth as a Process," *Harvard Business Review*, June 2006, p. 69.

<sup>33</sup> John A. Byrne, "The Fast Company Interview: Jeff Immelt," *Fast Company*, July 2005, pp. 60–65.

<sup>34</sup> GE 2005 Annual Report, p. 10.

<sup>35</sup> *Ibid.*

<sup>36</sup> *Ibid.*

<sup>37</sup> Jeffery R. Immelt, "Growth as a Process," *Harvard Business Review*, June 2006, pp. 63–64.

<sup>38</sup> GE 2005 Annual Report, p. 4.