The Immelt Revolution

He's turning GE's culture upside down, demanding far more risk and innovation

DESPITE HIS AIR OF EASY-going confidence, Jeffrey R. Immelt admits to two fears: that General Electric Co. will become boring, and that his top people might act like cowards. That's right: cowards. He worries that GE's famous obsession with bottom-line results—and tendency to get rid of those who don't meet them—will make some execs shy away from taking risks that could revolutionize the company.

Immelt, 49, is clearly pushing for a cultural revolution. For the past 3½ years, the GE chairman and CEO has been on a mission to transform the hard-driving, process-oriented company into one steeped in creativity and wired for growth. He wants to move GE's average organic growth rate—the increase in revenue that comes from existing operations, rather than deals and currency fluctuations—to at least 8% from about 5% over the past decade. Under his former boss, the renowned Jack Welch, the skills GE prized above all others were cost-cutting, efficiency, and deal-making. What mattered was the continual improvement of operations, and that mindset helped make the $152 billion industrial and finance behemoth a marvel of earnings consistency. Immelt hasn't turned his back on the old ways. But in his GE, the new imperatives are risk-taking, sophisticated marketing, and above all, innovation.

This is change borne of necessity. The Welch era reached its zenith in the booming, anything-goes economy of the late 1990s. Back then, GE always seemed to beat the consensus forecasts by a penny a share—and investors felt no burning need to figure out exactly how they did it. Immelt has no such luxury. With a slower-growing domestic economy, less tolerance among investors for buying your way to growth, and more global competitors, Immelt, like many of his peers, has been forced to shift the emphasis from deals and cost-cutting to new products, services, and markets. Any other course risks a slow descent into irrelevance. "It's a different era," says Immelt, a natural salesman who still happily recounts the days when he drove around his territory in a Ford Taurus while at GE Plastics. He knows the world looks to GE as a harbinger of future trends, says Ogilvy & Mather Worldwide Chief Executive Rochelle B. Lazarus, who sits on the GE board. "He really feels GE has a responsibility to get out in front and play a leadership role."

So how, exactly, do you make a culture as ingrained as GE's sizzle with bold thinking and creative energy? To start, you banish some long-cherished traditions and beliefs. Immelt has welcomed outsiders into the highest ranks, even making one, Sir William M. Castell, a vice-chairman. That's a serious break with GE's promote-from-within past. He is pushing hard for a more global workforce that reflects the communities in which GE operates. Immelt is also encouraging his homegrown managers to become experts in their industries rather than just experts in managing. Instead of relying on execs who barely had time to position a family photo on their desk before moving on to the next executive assignment, he's diversifying the top ranks and urging his lieutenants to stay put and make a difference where they are.

Most of all, Immelt has made the need to generate blockbuster ideas more than an abstract concept. In true GE fashion, he has engineered a quantifiable and scalable process for coming up with money-making "eureka!" moments. While Welch was best known for the annual Session C meetings during which he personally evaluated the performance of GE's top several hundred managers, Immelt's highest-profile new gathering is the Commercial Council. Immelt leads the group of roughly a dozen top sales and marketing executives, including some unit heads such as GE Consumer Finance CEO David R. Nissen. The members hold phone meetings every month and meet each quarter to discuss growth strategies, think up ways to reach customers, and evaluate ideas from the senior ranks that aim to take GE out on a limb. "Jeff has launched us on a journey to become one of the best sales and marketing companies in the world," says Nissen, who describes the meetings as collegial and more experimental than other GE gatherings.

This is no free-for-all, however. Business leaders must submit at least three "Imagination Breakthrough" proposals per year that ultimately go before the council for review and discussion. The projects, which will receive billions in funding in the coming years, have to take GE into a new line of business, geographic area, or customer base. Oh, and each one has to give GE incremental growth of at least $100 million.

Such change can be scary stuff for folks steeped in Six Sigma, who were led to believe that if you made your numbers and were prepared to uproot your family every year or two, you had a shot at the top rungs. Now they're being

Culture Shock

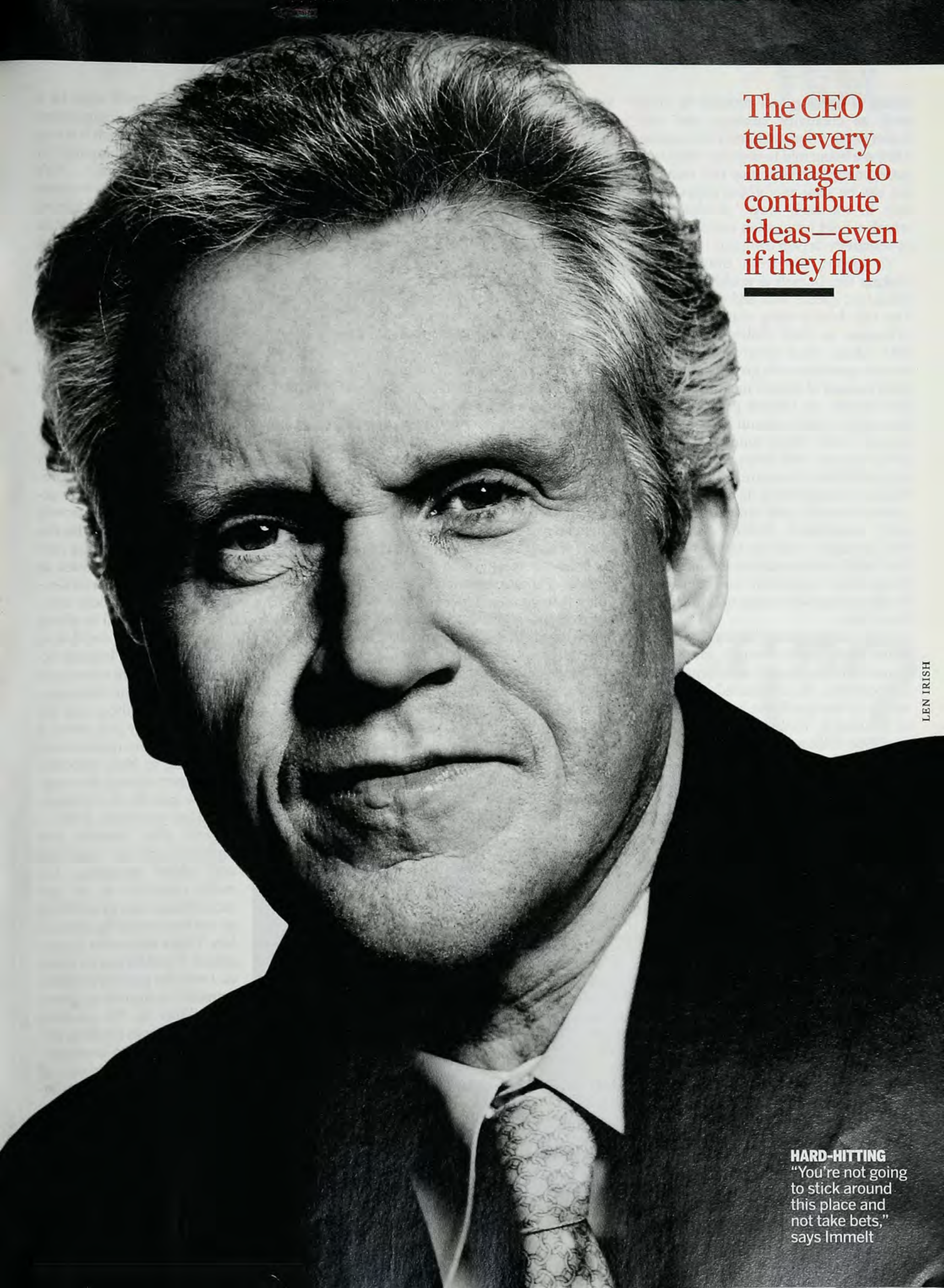
How CEO Immelt is trying to shift the GE mindset:

PAY Link bonuses to new ideas, customer satisfaction, and sales growth, with less emphasis on bottom-line results

RISK Spend billions to fund "Imagination Breakthrough" projects that extend the boundaries of GE

EXPERTS Rotate executives less often, and bring in more outsiders to create industry experts instead of professional managers

The CEO tells every manager to contribute ideas—even if they flop



LEN IRISH

HARD-HITTING "You're not going to stick around this place and not take bets," says Immelt asked to develop real prowess in areas such as creativity, strategy, and customer service that are harder to measure. They are being told to embrace risky ventures, many of which may fail. Immelt's GE can be seen as a grand experiment, still in its early days, to determine whether bold innovation can thrive in a productivity-driven company.

To inspire the fresh thinking he's looking for, Immelt is wielding the one thing that speaks loud and clear: money. The GE chief is tying executives' compensation to their ability to come up with ideas, show improved customer service, generate cash growth, and boost sales instead of simply meeting bottom-line targets. As Immelt puts it, "you're not going to stick around this place and not take bets." More concretely, 20% of 2005 bonuses will come from meeting pre-established measures of how well a business is improving its ability to meet customer needs. And while he hasn't exactly repudiated Welch's insistence that managers cull the bottom 10% of their staff, insiders say there's more flexibility, more subjectivity to the process. Risking failure is a badge of honor at GE these days.

To lay the groundwork for an organization that grows through innovation, Immelt took steps early on to rejigger the GE portfolio. He committed to sell $15 billion of less profitable businesses such as insurance, while shelling out more than $60 billion in acquisitions to dive into hot areas such as bioscience, cable and film entertainment, security, and wind power that have better growth prospects. In doing so, he pared the low-margin, slower-growth businesses like appliances or lighting, which he diplomatically calls "cash generators" instead of "losers," down to 10% of the portfolio, from 33% in 2000. Nicole M. Parent of Credit Suisse First Boston is impressed with "the way they have been able to evolve the portfolio in such a short time" and with so little disruption. "This is a company where managers will do anything to achieve their goals."

The changes are tough on the many who aren't "dreamer types"

Good thing, as their back-slapping chief is now looking for "those things that grow the boundaries of this company." He's confident that the new business mix and growth incentives are already paying off. At GE's annual gathering of its top 650 executives in Boca Raton, Fla., in January, he insisted that "there's never been a better day, a better time, or a better place to be [at GE]!" Strong words in a company that stretches back 127 years to founder Thomas Edison. After an 18% jump in revenues and earnings in the fourth quarter, to $43.7 billion and $5.4 billion, respectively, Immelt predicts up to 17% earnings growth and 10% sales gains for all of 2005, with double-digit returns through 2006. While economists scratch their heads over the next quarter, Immelt is promising two years of explosive growth. No wonder Sharon Garavel, a quality leader at GE Commercial Finance says that, at Boca, "everyone was talking about a $60 stock price," or about $24 more than its current price.

That in itself may be a stretch of the imagination for now, but Immelt is trying to recast the company for decades to come. He's spending big bucks to create the kind of infrastructure that can equip and foster an army of dreamers. That means beefing up GE's research facilities, creating something akin to a global brain trust that GE can tap to spur innovation. He has sunk $100 million into overhauling the company's research center in Niskayuna, N.Y., and forked out for cutting-edge centers in Bangalore, Shanghai, and Munich.

Globalizing research has allowed GE to get closer to overseas customers. The simple fact is that most of GE's growth will come from outside the U.S. Immelt predicts that developing countries will account for 60% of the company's growth in the next 10 years, vs. about 20% for the past decade. But he is also spreading new practices to lethargic economies such as Germany. After a 2002 meeting with German Chancellor Gerhard Schröder reinforced his notion that GE could be doing more in that country, Immelt decided to open the Munich center. As Immelt explains, "there's no place in GE where you feel more like a loser than in Germany. You have Siemens and Philips, and we haven't been that good." By July, 2004, a new center was up, and the results were immediate. According to Nani Beccalli-Falco, CEO of GE International, the company saw a 21.5% growth in German-speaking markets last year from 2003.

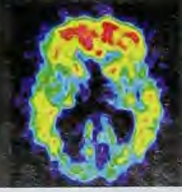
Now that Immelt has repositioned the portfolio and added resources, his main objective is to get more immediate growth out of the businesses he already has. That's where the Imagination Breakthroughs come in. Over the past 18 months, Immelt has agreed to invest $5 billion in 80 projects that range from creating microjet engines to overhauling the brand image of 3,000 consumer-finance locations. The hope is that the first lot will generate $25 billion in revenue by 2007—cheap, if it works, when you consider what it would cost to acquire something from the outside with that level of sales. In the next year or

Shuffling The Portfolio

Immelt has spent more than $60 billion to bolster GE's mix of businesses. Some new capabilities:

MEDIA CONTENT
Buying Universal gave GE a rich library, film studio, cable networks, and theme parks. Bravo and Telemundo help, too.

BIOSCIENCES
With Amersham, GE can bring diagnostics down to the cellular level and be a leader in personalized medicine.



SECURITY
GE bought its way into fire safety and industrial security with Edwards Systems. Ion Track and InVision gave it entrée into homeland security, from bomb detection to screening for narcotics.

WATER
Buying Ionics and Osmonics gets GE into desalination, fluid filtration, and other water-processing services. The goal: to increase the availability of clean water around the world.

RENEWABLE ENERGY
GE moved into solar and wind power and biogas with acquisitions such as Enron Wind.

two, Immelt expects to have 200 such projects under way.

The pressure to produce could not be more intense. Many of the company's 307,000 workers weren't exactly hired to be part of a diverse, creative, fleet-footed army of visionaries who are acutely sensitive to customers' needs. "These guys just aren't dreamer types," says one consultant who has worked with the company. "It almost seems painful to them, like a waste of time." Even insiders who are openly euphoric about the changes under Chairman Jeff admit to feeling some fear in the depth of their guts.

"This is a big fundamental structural change, and that can be tough," says Paul T. Bossidy, CEO of GE Commercial Equipment Financing, who is reorganizing his sales force so that each person represents all of GE to particular customers. Susan P. Peters, GE's vice-president for executive development, even talks about the need for employees to "reconceptualize" themselves. "What you have been to date isn't good enough for tomorrow," she says. Ouch.

SIR WILLIAM CASTELL

GE has made a break with its promote-from-within tradition

To Immelt, the best managers are great marketers and not just great operators. That's a rethinking of GE's long-held bias that winning products essentially sell themselves. Beth Comstock, who was appointed chief marketing officer three years ago with the mission of boosting the company's marketing expertise, says that when she started, a number of insiders were skittish about the new agenda: "Everyone thought, 'I've got to get into sales and marketing to be relevant in this company?'"

Well, yes. Comstock is trying to elevate the role of marketing throughout GE. She has helped develop a commercial leadership program that sends the best and brightest marketers around the organization for two intensive years, much as GE's corporate audit staff has long done on the finance side. The auditors were important to maintaining financial discipline under Welch. Now, GE has initiated new courses in marketing, as well as ones on how to spark idea generation. Some executives have also taken to holding "idea jams," where people from diverse businesses brainstorm. Within GE Energy alone, there are "growth heroes," who are held up as emblematic of where the company wants to go, a "virtual idea box" to spur brainstorming via the Web, and "Excellerator awards" for the development of ideas. The jargon may smack of classic GE, but the approach is novel. "This is about unlocking the curiosity, yet having the rigor stay intact," says Comstock.

In this era, marketing is not just a matter of producing edgier commercials or catchier slogans. It means getting outside the company to understand markets and customers. Among other things, GE's top marketing executives have spent a lot of time examining the practices of companies such as Procter & Gamble Co., which let them spend time last November in "The GYM" where strategies and issues are debated, examined, and maybe even solved. "The idea is to enhance a team's creative thinking," says P&G spokesman Terry Loftus. GE staffers also spent time at FedEx Corp., which has exceptional customer service. Welch did the same thing in benchmarking Motorola Inc. when he delved into Six Sigma, but the external focus is even stronger now.

Immelt wants his managers to lead industries rather than merely follow demand. Take the company's move to create a cleaner coal plant—another Imagination Breakthrough—before its customers were even asking for it. GE initiated the push after acquiring ChevronTexaco Corp.'s gasification-technology business last year. Immelt and GE Energy CEO John G. Rice brought together big power customers and experts on subjects such as climate change at GE's education center in Croton-on-Hudson, N.Y., last July to debate where the industry would be in 2015. James E. Rogers, chairman and CEO of public utilities giant Cinergy Corp., was shocked to hear Immelt talk about the need to generate electricity with far fewer emissions—a touchy subject in an industry that still burns a lot of coal. "He was unafraid to articulate a point of view that his customers might not share," says Rogers, whose company burns 30 million tons of coal a year.

What convinced Rogers to partner with GE and Bechtel Corp. on a cleaner coal power plant was the prospect of having an integrated package managed by GE. Instead of forcing Rogers to license the technology and figure it out himself, GE in partnership with Bechtel will design and implement the plan, while Cinergy will provide and help develop the site. GE's promise: that the cleaner-burning plant will soon become competitive with pulverized coal and that GE will handle any hiccups in the process. "I like the way they're thinking about the future," says Rogers. "They're going to make this work."

OUTSIDERS' INFLUENCE

BUT THERE'S A LIMIT to how much Immelt can transform his own people. A key strategy—and one that amounts to a gut punch to the culture—involves bringing in more outsiders. In sales and marketing alone, GE has hired more than 1,700 new faces in the past few years, including hundreds of seasoned veterans such as David J. Slump, a former ABB Group executive who is the chief marketing officer of GE Energy. "I just didn't think outsiders would do well here," says Slump, who was surprised at the unit's openness to changing its ways, though one of the senior executives did warn him about coming off as "too intense." That said, he was also amazed at the lack of attention to marketing when he arrived—with no marketers among the senior ranks and no real sense of strategy beyond the occasional ad or product push. Slump felt needed.

Immelt is also looking for more leaders who are intensely passionate about their businesses and are experts in the details. "I want to see our people become part of their industries," he says. No one represents Immelt's vision of what a GE leader should be better than Bill Castell—who has spent his entire career in one industry and who has rarely, if ever, focused on maximizing profits. The cerebral Brit was heading up diagnostics-and-bioscience giant Amersham PLC when Immelt acquired it—after much wooing—for $10.7 billion last year. Not only did Immelt make Castell head of the new $14 billion GE Healthcare, he named him a vice-chairman of GE and located the unit's headquarters outside the U.S., in the English village of Chalfont St. Giles.

Castell is quite unlike the archetypal GE executive. He's totally immersed in his industry, a leading thinker on the future of personalized medicine who will never head up a business based on jet engines

STEVE PYKE

or commercial finance. Nor is he pursuing a black belt in Six Sigma or losing sleep over making his numbers. "People were surprised at first that I didn't tend to talk about the quarter," admits Castell. Yet Immelt loves him. "I want managers to have the kind of curiosity that Bill has, his passion for the industry," he says. "He understands where the market is going." This is, after all, a man known to call up his boss and wax on about an angiogenesis marker that won't hit the marketplace for 10 years. Imagine how long that conversation would have lasted with Welch.

To deepen expertise, execs stay in one job longer

To encourage that kind of expertise and passion in the rest of his organization, Immelt is urging people to stay in place longer to build stronger relationships with customers and markets. GE Energy's Rice—a hotshot who is emblematic of the old system, in which a great GE manager could parachute onto the scene to turn any business into gold—notes that the idea of staying put takes some adjustment. "There was always an impression in the midlevel ranks that if you weren't moving every few years, something was wrong," says Rice. He now says he likes the fact that he has been in one place for four years, because he's developing a deeper knowledge.

Investors are still waiting to see whether GE's evangelizing chairman can truly make his company grow faster than the world around it. Even some of his fans think that GE's new momentum has more to do with the overall economy than with idea generation. Says Steve Roukis of Matrix Asset Advisors, which owns 2 million GE shares: "If you have a revolutionary decade of growth around the world, who's going to be there to capture it? GE."

Capture it? Jeff Immelt wants to shape it, drive it, make it his own. For him, reinventing GE is the only way to make his company dominate this century, much as it led the one before. ■

–By Diane Brady in Fairfield, Conn.

DANA TYNAN/CORBIS

BusinessWeek online For more on GE under Jeff Immelt, including a Q&A, go to www.businessweek.com/extras

CHEEKY—AND LEGGY Taylor, Skaist-Levy, and companion

To Live and Thrive in L.A.

Juicy Couture's founders are spinning gold from Valley Girl "casual chic"

THERE ARE THE CONVENTIONAL measures of success in business: healthy profits, high stock prices, happy employees. Then there's the way 44-year-old Gela Taylor and 41-year-old Pamela Skaist-Levy, the two women who founded Juicy Couture, the very L.A. line of clothes, measure success: "We had our biggest honor this year," says Taylor. "We're Barbies now." That's right. Mattel Inc. designed dolls based on the Juicy ladies, dressed in their signature sweat suits, pet dogs at their sides.

It doesn't get much better than that for this pair, who often do wear matching outfits, call each other "Fluffy," and can take much of the credit for bringing L.A.'s casual chic to the rest of the world. Juicy clothes are laid back, sometimes cheeky, and priced just this side of outrageous. Ripped jeans with a rhinestone heart on the front sell for $178; a hooded sweatshirt lined with rabbit fur goes for $395. And, although you won't hear this from them, paying more helps account for the 4% rise in U.S. apparel sales in 2004, to $173 billion, the first increase in three years. "People are identifying with that affluent celebrity lifestyle," says Marshal Cohen, an analyst at market researcher NPD Group Inc. "Everybody wants to go to the gym with Madonna, or at least look like they did."

WORKING OUT WELL

JUICY COUTURE IS also a rare example of a corporate takeover that has worked. Liz Claiborne Inc. acquired the company in April, 2003, for what Skaist-Levy calls a juicy price: $53 million plus an additional sum based on future earnings, which Claiborne estimates could reach $92 million. Juicy Couture has become one of Claiborne's fastest-growing divi-