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Jeff Immelt and GE's Bid to Own the Future

By Rob Elson

"I just couldn't explain why we owned NBC."

In only eight words, GE's Jeff Immelt summed up one of the major catalysts for his transformation of the company during his nearly 16 years as president and CEO. His enlightening, lighthearted conversation with ICI President and CEO Paul Schott Stevens at ICI's 59th Annual General Membership Meeting—which began yesterday in Washington, DC—dove deep into Immelt's thinking behind this transformation, the company's major decisions during his tenure, and his big plans for the company's future.

A Digital Industrial Future

With the confidence and ease of a man in charge of 300,000 employees across the globe, Immelt recalled how he reshaped GE's portfolio to be "narrower and deeper"—a theme that would recur throughout the session.

"When I became CEO, GE Capital accounted for 55 percent of our earnings, we were underinvesting in our industrial business, and we were investing in everything from plastics to dog insurance," he said. "But in the back of my mind, I always wanted to be a high-tech industrial company—only as broad as it was deep."

For Immelt, that meant not overextending the firm into sectors or companies that its leaders didn't know enough about—or didn't have the resources to learn about. Instead, it meant focusing sharply on "owning the supply chain and sharing a core competency around the materials."

Immelt then turned his attention to leading the "digital industrial future"—and taking on the giants of Silicon Valley. He knew the enormous task wouldn't happen overnight, but he was confident in GE's capabilities.

"It wasn't like we went to bed one night and woke up thinking, 'We have to be Oracle,'" Immelt said, explaining GE's patient and strategic approach. "Most tech companies have only analytical data—and that's like being a brain with no body. One of Silicon Valley's biggest mistakes is thinking that, in the digital industrial future, assets won't matter. But they do. We have a $250 billion backlog in service agreements—and 100 years of physical data. That's a brain with a body."

Hard Times—and Harder Decisions

Anyone who's been at the top levels of business knows that it isn't always easy—or predictable. In the 1980s and 1990s, Immelt explained, CEOs endured plenty of challenges, but no true crises. "That all changed on 9/11—and again with the financial crisis, and again with the BP oil spill, and again with the earthquake, tsunami, and meltdown of the Fukushima power plant in Japan."

In these moments of crisis, he said, "it's all about the importance of showing up, of answering the bell, of standing up in front of investors and employees, of being open about what's happened and being affirmative about the future. When you go through these cycles," he stressed, "you get more resilient and more confident. It's not about perfection. It's about not making the same mistake twice."

This wisdom helped Immelt manage through the chaos of the 2008 financial crisis, when he made what he described as his "hardest decision" as CEO—giving the go-ahead on a plan to raise $15 billion on a few days' notice in what was then among the largest secondary stock offerings in history.

The idea that one of the world's most famous, well-managed companies would need a sudden, enormous infusion of cash didn't exactly play well among everyone, especially given the havoc in the markets. But, as Immelt said, "it was the only thing we could do to keep our company safe.

"I got beaten up in the press, but it was the best day I've had," Immelt recalled. The decision "was made economically, was made smoothly, didn't create negative knock-on effects, and made the funds that were investing in us happy. The way I saw it was, 'If you want love, get a dog.'"

It's safe to say that one of the results of the crisis—GE being designated as a systemically important financial institution, or SIFI—was not among his best days.

When Stevens asked what it was like to be designated and regulated as a SIFI, Immelt replied, "Not fun!" He continued, "I do think we needed more regulation after the crisis—but the pendulum swung too far. We need a vibrant financial services industry to serve pensioners and consumers, but the situation we found ourselves in was impinging on our ability to do our financial services business well. The goals of regulators and industry need to be the same."

Last summer, GE Capital became the only designated nonbank financial firm to have its SIFI status removed, thanks to the massive sale of assets that Immelt and his team oversaw over the last several years.

Keys to Success

Asked to describe some of his keys to success, Immelt laid out three strategies. The first, he stressed, is to maintain a strong local footprint in every country you do business in—and to train your teams to think that way. "We don't read the *Financial Times* to learn about China," he explained. "We have a team in China. We haven't built factories in China to ship back to the United States. We've built them to win in China. The opportunities are not in outsourcing. They are in on-the-ground investment—investment in time, people, and capital. At least, that's how we use the game board."

The second strategy is to create a "oneness" within the company. No matter the location, everyone is trained the same way, with constant communication on strategy and values. "If you met with one of our leaders in India," he said, giving an example, "she might have a different background, and work within a different context, but she will share plenty of similarities with our leaders in Chicago."

The third strategy is to foster a start-up mentality—a tall order for a 125-year-old behemoth. To succeed like a startup, Immelt said, you have to lead from the bottom up. "I've worked at GE a long time," he added, emphasizing his point. "I haven't done every job, but I know how every job gets done."

A Way Forward for Government and Business

Turning to a macro discussion—improving US competitiveness and economy—Immelt had some tough talk for his fellow Americans. "Our infrastructure is not in the top 20. Our tax system is 40 years old. The Chinese have spent $100 billion in Africa over the last decade. We've spent $100 million. If we don't like where we are today, that's because we haven't tried very hard."

Most of the time, he noted, GE's shareholders "just want me to keep my mouth shut and go to work." But there "are times when we have to speak up a little bit to our leaders in Washington." In his mind, one of the biggest problems facing the United States is an inability to focus. Whether it's tax reform, regulation, trade, or climate change, he suggested taking on one challenge at a time, and doing fewer things with greater depth.

Immelt acknowledged that he's made just this same mistake—as many people and organizations have—but sees his company in great shape to lead the way forward. At GE, he explained, "we are deep first, and broad second. And because of this mindset, the company is much better positioned to face the future than it was when I became CEO. You can criticize some steps along the way, but if you step back and look at us now, you're going to like what you see."

But some things haven't changed. "Everyone that works for us knows that her name is not above the door—the *company* comes first. Integrity, performance, and commitment to people—that was the company that I inherited from Jack Welch. And that's what exists today."

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