

## Why and how has GE built and sustained innovation?

### A Profile of GE's policies and management practices which contribute to its entrepreneurship and innovation

#### Corporate Innovation Online

- Benchmarking innovation
- Building and sustaining innovation
- Articulating innovation

#### Innovation Management Center

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#### Appendix

##### A. Entrepreneurship and Innovation Rating for GE

- Strategy is the science and art of using the resources of the business to execute approved plans as effectively as possible.
- Management practices is to do or perform habitually, customarily, in order to acquire or polish a skill
- Policies; a plan or course of action, as in a business, and intended to influence and determine decisions and actions
- Culture; a prevailing condition or set of attitudes in human affairs; behaviour patterns and beliefs

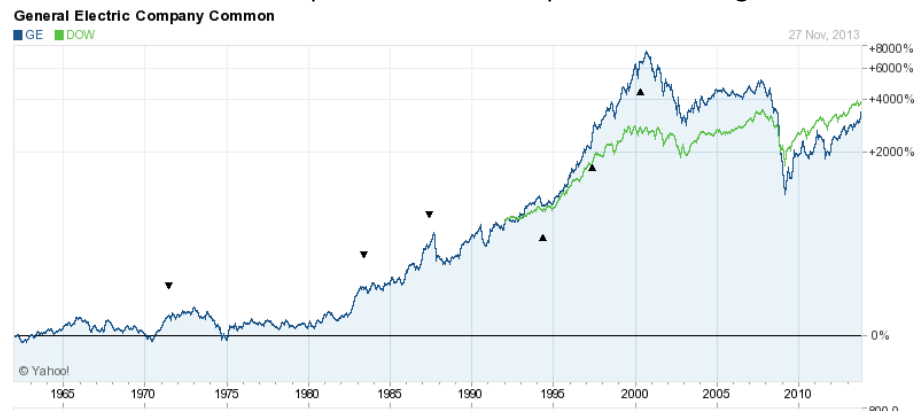
*'An innovative climate is not just a sentimental need. It has powerful business implications and can bring real results. There's a reason why companies like Google and Apple have such a breathtaking record of rapid innovation; you need to look no further than their climate. A climate of innovation ensures that you'll have the inherent ability to not just innovate with an occasional flash of brilliance, but to do so continuously. That's an extremely important strategic advantage to have in a fast-moving marketplace that's overcrowded with competitors'. Source; Future Link.*

## Executive Summary

Founded in 1889, and consolidated into the General Electric Company in 1892, GE has a well established reputation as an outstandingly innovative company.

Thomas Edison, who founded the firm, established policies and introduced management practices which fostered a culture for innovation. While GE's innovative performance has experienced both good and difficult periods, influenced by each successive leader, there is no doubt that the company's policies and practices, which have made it so entrepreneurial and innovative, can be traced to the early influence of the founder.

Over the most recent decades – the focus of this Profile, GE has experienced 2 leadership regimes; Jack Welch, from 1981 to 2001 and since 2001, Jeff Immelt.



GE's culture for innovation – the product of its policies and management practices - is currently undergoing a reshaping under Immelt – as it did under Welch – but with a difference emphasis.

Immelt is taking steps to swing the emphasis back to what one would consider to be GE's traditional innovation – i.e. with a greater emphasis on embracing new ideas and organic growth and not so much on the achievement of short-term financial results.

GE is often looked upon as a bell-weather of the U.S. economy. GE stock, over the long term – since first listing on the NYSE - ends up behind the DOW but had a period of stellar performance in the 90s and into the early 2000s.

Under Jack Welch up to 2001, GE stock had a wonderful ride in terms of its stock price but more importantly, from a management perspective, it was viewed as the company to be with if one wanted good management experience.

Strategic planning methodologies were developed and applied in GE. It was known as a great training ground and spawned a cadre of executives who now find themselves in senior roles in America's business.

Our first Profile of GE was completed in 2009<sup>1</sup> well after Jeff Immelt's assumption of the CEO role but, occasioned by the publication of his book<sup>2</sup>. The book's publication provides a perspective on innovation in GE during and insight into the then current thinking of its CEO; Jeff Immelt.

<sup>1</sup> <http://www.corporateinnovationonline.com/innovation-culture-profiles/>

<sup>2</sup> The New GE Way, by David McGee

This Profile documents the culture of GE from the time of Edison, the founder who set the corporation's tone for innovation.

Those following Edison have maintained the culture. For some at GE it proved difficult for some managers to actually articulate the culture of GE. They knew what it wasn't but could not so clearly state what the culture was. Culture is often latent and tracks below the surface.

There is a suggestion that during Welch's time, the culture shifted away from an emphasis on technology to achieving financial performance. This is in the process of being redressed by Immelt.

GE, under Immelt has increased spending on R&D from the 5% of revenue range to 6%, again reinforcing the revised direction which senior management has taken. GE now, in contrast to the time under Welch, has been restored to top 10<sup>3</sup> filers of patents in the U.S.

A major theme of most recent publications on GE clearly point out that there has been a concern respecting the size of the organization and the management challenge of such a large organization. As the global roll out continues with ever more physically far flung operations growing at astonishing speeds, a new approach to management is required and is apparently underway. Entrepreneurship and innovation are receiving more attention than ever.

The new theme<sup>4</sup> is referred to as 'Simplification'. Immelt's recent examination of venture capital organizations and how they manage their investments provides insights into upcoming changes in policies and management practices.

- Take on fewer 'things' but do a better job and choose those with a bigger impact
- Position decision makers closer to the action and do delegate responsibility and accountability
- Remove the sense of a 'headquarters' and layers of 'checkers'
- Move faster on decision making – but keep accountability intact

These initiatives result to some extent from his time spent with venture capitalists – those persons used to small but potentially rapidly growing market and business dynamics. Avoiding bureaucracy and arrogance is the intent – and with the objective of reducing the ratio of 'selling, general and administrative expenses (to below 16%).

The 'Simplification' initiatives is a recognition that 'GE was becoming too complicated'<sup>5</sup>. Restoring entrepreneurship and innovation is clearly Immelt's intent; a focus on customers, people and solving problems.

A performance measure of innovation and entrepreneurship in GE is the statement that 'About one-third of our infrastructure revenues comes from business we weren't in a decade ago'. Strategically, GE is positioning itself as an 'infrastructure company'.

Our first Profile set out Immelt's objectives. In our opinion he has followed through on those well-expressed intentions and by so doing has again righted the GE ship.

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<sup>3</sup> GE Annual Report; 2012

<sup>4</sup> ibid

<sup>5</sup> ibid

Our summary ranking of GE is set out in Appendix A. With few exceptions, GE ranks close on with our 'Best of Breed' when it comes to policies and management practices encouraging entrepreneurship and innovation.