

# GE chief takes well-read look into future

By David Henry  
USA TODAY

**NEW YORK** — The yearly opportunity is here to find out what's pressing on the mind of the USA's most highly acclaimed CEO.

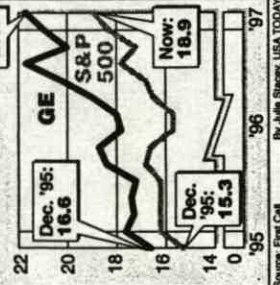
On its way in the mail this week-end is Jack Welch's 16th annual letter to General Electric shareholders. But Welch's audience is much broader than GE's 500,000 stockholders. His letters are believed to be more widely read than those of any other CEO, with the exception of the letters of investment legend Warren Buffett of Berkshire Hathaway.

Welch, 61, devotes a lot of effort to his letter. He knows that GE employees and GE watchers — from stock analysts to professors of management to other CEOs — look to the letter as one of his most important efforts to define GE today and to communicate his vision for the next phase of the corporation's evolution. The letters stand out from those of ordinary CEOs because they tend to build on one another, showing Welch pushing forward and wasting few words rehashing last year's successes or rationalizing its failures.

Last year Welch used the letter as part of his campaign to shed the taint of being a conglomerate. He wanted investors to accord GE the higher valuations they usually accord high-quality growth companies instead of the lower multiples of earnings accorded lumbering or bumbling, cyclical corporate giants. He's been largely successful, though still shy of what bullish analysts expect he will

## Comparing PE's

Since early 1996, the price-earnings ratio on GE stock has risen more than that accorded the Standard & Poor's 500 stock index.



By John Sheery, USA TODAY  
Source: First Call

but financial services for aging baby boomers, products like insurance and annuities. Services hold more potential than making things such as light bulbs and jet engines.

Yes, Welch, the toast of industrial America, is embracing the post-industrial economy. As the stock market sets records, Welch prizes baby boomers' love for financial securities as much as Wall Street.

It is easy to see why. Operating profit from General Electric Capital Services (GECS) grew 17%, compared with about 5% growth from aircraft engines and appliances. In fact, in each of the last two years, 57% of GE's growth in operating profit came from GECS. That's a big contribution considering that the unit accounts for 38% of GE's revenue and profit. If classified by itself, GECS would rank in the top 10 commercial banks in the USA with \$227 billion in assets. Yet, the 11 other businesses, virtually all top performers in their industries, are key to Welch's chosen structure for GE.

The other businesses generate excess cash that support the triple-A ratings for debt issued by GECS. The rare triple-A means GECS can borrow for less than it charges when it lends to less creditworthy customers, such as consumers with credit cards and investors in leveraged buyouts.

GE also uses the excess cash to make its earnings per share grow faster than its operating profit. While operating profit grew 11% last year, GE bought back \$3.3 billion worth of its own stock and saw its earnings grow 13%.

## Company's defining facts, figures

- ▶ Largest stock market value in the world: \$162 billion at year-end. (\$174 billion on Thursday.)
- ▶ Stock price at year-end: \$98.75, up from \$72, total 1996 return (price appreciation plus dividends): 40%.
- ▶ Shares outstanding: 1.64 billion.
- ▶ Revenue \$79.2 billion in 1996, up 13%.
- ▶ Earnings \$7.3 billion in 1996, up 11%.
- ▶ Earnings per share up 13% to \$4.40 in 1996.
- ▶ 1996 dividends: \$3.1 billion, or \$1.90 a share.
- ▶ Operating cash flow: \$9.1 billion, \$3 billion over previous high.
- ▶ Value of stock repurchased: \$3.3 billion.
- Other GE tidbits:
  - ▶ Operations in 100 countries.
  - ▶ 250 manufacturing plants in 25 countries.
  - ▶ 239,000 employees.
  - ▶ Created in 1892 from merger of Edison General Electric and Thomson-Houston Electric.
  - ▶ The oldest of the 30 companies in the Dow Jones industrials and the only original Dow stock.

## What it takes to be a leader at GE

Welch's letter includes these descriptions of the model GE executive:

- The Culture ... Finding a Better Way Every Day
- GE Leaders:
- ▶ have a passion for excellence and hate bureaucracy.
  - ▶ are open to ideas from anywhere.
  - ▶ live quality ... and drive cost and speed for competitive advantage.
  - ▶ have the self-confidence to involve everyone and behave in a boundary-less fashion.
  - ▶ create a clear, simple, reality-based vision.
  - ▶ have enormous energy and the ability to energize others.
  - ▶ stretch ... set aggressive goals ... reward progress ... yet understand accountability and commitment.
  - ▶ see change as opportunity ... not threat.
  - ▶ have global brains ... and build diverse and global teams.

## Values, knowledge drive growth

Excerpts from Jack Welch's latest letter:

We intend to describe three key facets of General Electric: its financial model, the values that drive it, and the enormous growth opportunities this model will capture.

**The model** On one side is a group of 11 large businesses that consistently improve operating margins, earnings and cash flow and support the "triple A" debt rating of the parent company. GE's "triple A," in turn, supports a huge, diverse, global financial services enterprise. The operating businesses ... consistently grow their revenue (and) operating margins ... while the 27 businesses that make up the financial services arm grow earnings at consistent double-digit rates. The fuel that drives it — the energy behind it — is our culture ... how we behave.

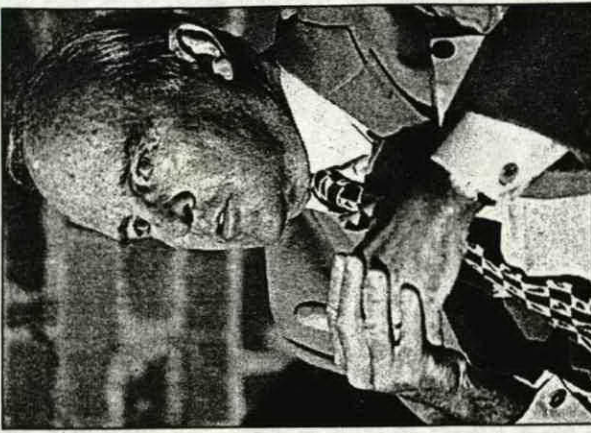
**Values** Our behavior is driven by a fundamental core belief: the desire, and the ability of an organization to continuously learn from any source and to rapidly convert this learning into action is its ultimate competitive advantage. We have made major changes in the compensation system to support this learning behavior. Bonuses, as well as salaries, reward the finding and sharing of ideas even more than their origination. You can talk — you can preach — all you want about a "learning organization," but, from our experience, reinforcing management, appraisal and compensation systems are the critical enablers that must be in place if rhetoric is to become reality.

**Horizontal growth opportunities** Quality, globalization, service, information technology and consumer savings are part of our answer to the sometimes-posed question of how an \$80 billion company — a \$7.3 billion net income machine — can continue to grow at double-digit rates.

Quality improvement, under the disciplined rubric of Six Sigma methodology, will define the way we work. Six Sigma quality means the virtual elimination of defects from every product, process and transaction. A Six Sigma quality level generates fewer than 3.4 defects per million operations in a manufacturing or service process. The three to four Sigma levels that are average for most U.S. companies, can cost a company as much as 10% to 15% of its revenues. For GE, that would mean \$8 billion to \$12 billion.

**Globalization** We now have a \$33 billion "global business" that grew 18% in 1996. More than 40% of GE's revenues are derived from non-U.S. markets — markets where we have grown, and will continue to grow, at three times the U.S. rate.

**Wealth accumulation and protection** GE is a savings business, focusing on consumer wealth



By Scott Suchman, AP  
Welch: Vision for GE includes 'global service company.'

accumulation. This has been created by the acquisition of insurance and annuity companies such as First Colony, Life of Virginia, GNA, Harcourt General, AMEX-LT Care, Union Fidelity Life and Union Pacific Life. This is an activity in which we were not even participating four years ago.

These well-positioned niche players are in the process of becoming a large consumer wealth accumulation business serving the huge demand for the financial, insurance, health care and other needs of the aging baby-boomer population.

**Services expansion** GE is an \$8 billion equipment-services business, growing at double-digit rates, with an advantage unique in the world: an installed base of some 9,000 GE commercial jet engines, 10,000 turbines, 13,000 locomotives and 84,000 major pieces of medical diagnostic imaging equipment. On-line diagnostic technology has been transferred across all GE equipment businesses and is taking the concept of equipment service into an entirely new dimension. All critical operating parameters of GE jet engines can be monitored by our service experts while the engines are in flight.

Services is so great an opportunity ... that our vision for the next century is a GE that is "a global service company that also sells high-quality products."