



General Electric Company

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Annual Report



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.

As those of you who’ve read these reports in the past know, we never shut up about the great things that lie ahead of a company whose people get up every morning and come to work knowing — convinced — that there *is* a better way of doing everything they do — and determined to find out who knows that way and how they can learn it.

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It is this learning, sharing and action-driven culture, when laid across the diverse businesses of GE, that gives us our true advantage, an advantage single-industry companies can never match — what we call “horizontal learning” across more than 250 diverse, global GE business segments.

The Horizontal Growth Opportunities

As this learning, sharing and doing have become rooted in our culture, we see, beyond our strong #1 and #2 individual businesses, the common growth opportunities that cut across them.

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.

The biggest opportunity for us to use this horizontal learning to accelerate growth is *Quality*.

Quality

Just as Work-Out got us to a culture of learning and openness that defined the way we behave, 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 this Company engages in every day around the globe. A Six Sigma quality level generates fewer than 3.4 defects per million operations in a manufacturing or service process.

It has been estimated that less than Six Sigma quality, i.e., the three-to-four Sigma levels that are average for most U.S. companies, can cost a company as much as 10-15% of its revenues. For GE, that would mean \$8-12 billion.

Six Sigma quality is already becoming part of our culture and defining how we work. The Six Sigma process is a very specific scientific methodology of measuring, analyzing, improving and controlling every process we engage in, from making jet engine blades, to executing a credit transaction with a customer, to minimizing “dead air” between segments in broadcasting. It involves enormous amounts of training, with thousands of “Green Belts,” “Black Belts” and “Master Black Belts” leading projects, teaching, and widening the circle of involvement in the quality initiative throughout GE.

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The methodologies of Six Sigma we learned from other companies, but the cultural obsessiveness and all-encompassing passion for it is pure GE. The intensity level involved in our decade-long struggle to achieve a boundaryless culture now seems “laid-back” compared to the near monomania with which we are approaching Six Sigma quality. Forty percent of every

manager's bonus is tied to his or her progress on quality results. Quality is the top item on every agenda in every discussion in every business in this Company. For leaders who do not see how

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critical quality is to our future — like leaders who could not become boundaryless during the 1980s — GE is simply not the place to be.

The momentum of the Six Sigma initiative is unprecedented. From launching this initiative in late 1995, with 200 projects and massive training, we moved to 3,000 projects and even more training in 1996; and we will undertake 6,000 projects, and still more training, in 1997. The \$200 million we invested in 1996 has already returned nearly that much in quality-related savings. The additional \$300 million we will invest in 1997 will deliver some \$400-500 million in savings, producing an additional \$100-200 million in incremental margins. This snowball will pick up size and momentum in terms of people trained, projects completed, and customer and employee satisfaction — all driving sales and net income growth. Growth and more growth.

Globalization

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

In Europe, despite the less-than-robust economy, we have grown revenues 42% per year from 1994 to 1996 — and almost tripled profits. That growth will continue in strong double digits in 1997. Today there is an \$18 billion "European GE."

Asia also is a source of ongoing double-digit growth, and today there is an \$8 billion "Asian GE," a big player in the fastest-growing market in the world.

Nowhere is the horizontal learning more important than in globalization. The constant sharing of business experiences and cultural insights, from around the world, is creating a Company whose brains, as well as its businesses, are truly global.

Information Technology

GE is a high-growth information company. Along with NBC, CNBC, MSNBC and the network's other ventures, we are well positioned in information services, in satellite leasing, and in a technology management services business created by the acquisition of AmeriData in the United States and CompuNet in Germany. In 1995, our information technology businesses had revenues of \$6 billion. We expect to more than double that in 1997, in a market synonymous with seemingly endless double-digit growth.

Information technology is clearly an important business opportunity in itself, but equally important is the role it is playing in the success of every business in the Company. It is making the huge transition from the "function" it was in the 1980s — with its own language, rituals and priesthood — to the indispensable competitive tool, the central nervous system of virtually every operation in the Company. Information technology has drawn us closer to customers via inventory management systems. It enables our engineers to monitor and service products on-line globally. It allows new products to be designed in real time by engineers, 24 hours a day, on two or three continents.

Without the detailed information on process capabilities, our quality initiative would be more art than science, driven more by slogans than by precise methodologies where tolerances are measured in millionths.