

RESTORING TRUST
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When you lose confidence, like investors seem to have today, in a system built on trust, perception and reality are both important. Good business leaders and directors are going to work on both. They are going to do everything they can, as quickly as they can, to make sure that trust is restored in the system. That means regulation and leadership.

In June 2002, GE decided that we weren't going to just check the box when it came to governance. I asked our board to review the Sarbanes-Oxley Act and the New York Stock Exchange proposed governance guidelines, and then within the next 60 days to make changes to the GE board that we collectively think we want. We did not come up with the perfect answer, but we came up with a board structure and a set of practices that our board endorsed and that we felt reflected the best-practice understanding of the day.

Five general points came out of governance discussions about how we wanted to run GE.

The first is perform with integrity. You're not going to restore investor trust unless companies are still aiming high, committed to hitting results, and making sure that the management team is totally focused on delivering on its commitments. This must always be done within the context of having good accounting procedures and a strong financial process led by the audit committee.

The second principle we focused on is a strong and independent board. The board has to understand and make sure a long-term strategy is being implemented that generates

good returns for investors, and it must ensure that a team of leaders is in place that can execute that strategy.

GE set a target that two-thirds of our board members should be independent, and that all new non-employee directors would always be independent. We're always going to strive to have directors who have clear oversight and can make clean judgments on the strategy and the people of the company. Only independent directors can sit on the comp committee, the governance committee and the audit committee.

GE defined an oversight process by adding a presiding director whose role is to manage three board meetings a year without GE management present. We changed director pay to a little in cash and a lot in deferred stock units that vest a year after the director leaves the board. We ended stock options for the board and went to deferred stock units.

Our third principle is alignment of senior leaders and investors in terms of compensation. GE's top 24 executives have to hold a multiple of our salary in stock for as long as we do the job. If we exercise stock options we have to hold the stock for a year before we can cash it.

I think more debate needs to take place on how you pay me, the CEO. You should pay me for performance and you should pay me for alignment, making sure I'm delivering for the board and for investors. You shouldn't have compensation plans to retain me.

The fourth principle is increased transparency. The ability to talk about your company externally the way you run it internally is something boards ought to make sure they're kicking the tires on all the time.

The fifth principle is that none of this works without a culture. Good companies have great people who play by team rules. If I were on a board it would be one thing I would always look for. One currency, one way people get paid, one set of rules and a sense that each and every day nobody gets treated differently, nobody is allowed to operate outside the system.

These issues are extremely important, so that's why I say fix them fast so that you can spend time talking about strategies that are going to create long-term shareholder value. My advice to boards is: Be demanding, protect yourself, but know that ultimately the value you create is in how well you can grow the company and how well you can accomplish those two goals of executing long-term growth strategy and selecting good people and good leaders.

Adapted from Mr. Immelt's keynote speech given at the NYU/NYSE Director's Institute in May 2003.