

Business management



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Response to “ GE’s Two-Decade Transformation: Jack Welch’s Leadership

How difficult a challenge did Welch face in 1981? How effectively did he take charge? Initially, I believed Jack Welch did not face a large challenge when he took the reigns of GE in 1981. Based on the background information provided, Reg Jones appeared to leave Welch with an outstanding company operating on all cylinders, yet challenges were present. The biggest problem Welch tackled was handling the “ fat” of the business. Welch’s first management decision was to essentially lean out the company. This was effectively achieved with his “ #1 or #2” method, downsizing, and with a restructuring effort that left more employees reporting directly to Welch. All of this was done early in Welch’s tenure, and functioned to establish a strong base company that Welch could transform into his future vision of GE. 2.

What was Welch’s objective in the series of initiatives he launched in the late 1980’s and early 1990’s? What was he trying to achieve in the round of changes he put in motion in that period? Welch’s objective in the series of initiatives he launched in the late 1980s and early 1990s was to redefine the culture of GE as one focused on innovation and constant change. Welch embraced the Maoian idea of constant revolution and wanted to create a corporate environment in GE where every employee was trying to find new ways of adding value to the company. Welch describes his vision of a new GE culture by explaining, “ the new psychological contract, if there is such a thing, is that jobs at GE are the best in the world for people willing to compete,” (Bartlett, 6). After developing his base company early on, Welch used the described series of initiatives in the late 1980s and early 1990s to change the mindset of GE’s massive employee base. 3. How does such a large, complex diversified conglomerate defy the critics and continue to

grow so profitably? Welch responds eloquently to this question and to critics of large, diversified conglomerates like GE by saying, “ The hottest trend in business is the rush toward breaking up multi-business companies. The obvious question to GE, the world’s largest multi-business company, was, “ When are you going to do it?” The short answer is that we’re not. ...We are a company intent on getting bigger, not smaller. Our only answer to the trendy question “ What do you intend to spin off is ‘ Cash-and lots of it.’” (Bartlett, 11) Here, Welch shows his defiance of critics of diversified conglomerates. Bartlett kept GE profitable despite its large, diversified size through two methods. The first was by keeping GE lean. It is easy to let waste and inefficiencies develop in a company the size of GE, but Welch’s insistence on leanness kept the company profitable. Furthermore, Welch used the size of his company to his advantage through his Best Practices initiative. Welch described his business like laboratories where he could learn the best practice for any one of a number of translatable, cross-business operations. In this sense, having many businesses gave GE many ideas, and also kept them profitable and growing.

4. Provide a brief financial analysis summary with data of GE during Welch's tenure. From 1981 to 2000, Welch had a nearly 5x growth in sales, from 27240. 0 in 1981 to 129, 853. 0 in 2000, and increased company wide net earnings from 1652 in 1981 to 12, 735 in 2000. Upon retirement, Welch had the highest ROS and ROE of any CEO in GE’s history and he managed to do it with fewer employees than Jones ever had. Furthermore, from an investment perspective, Welch’s superior management was apparent in company stock growth, which went from a low of \$51. 1 in 1981 to a high of \$181. 5 in 2000, an extremely impressive increase.

5. What is your evaluation of Welch’s approach to leading change? What are the

implications for his replacement? Based on the financial analysis, Welch's changes in GE appear to be extremely effective. The implication for his replacement is that the next CEO either needs to be extremely on board with Welch's culture instilled at GE, or will need to spend significant years rebuilding a new culture at GE, just as Welch did upon his arrival.

Furthermore, because GE is moving at such a breakneck pace, the incoming CEO will be challenged to maintain GE's rate of growth during Welch's tenure, as investors have grown to expect this pace and a let up would signal weakness within the company. In any case, Welch's successor will have a large role to fill. References 1. Bartlett, Christopher A., and Meg Wozny. GE's Two-Decade Transformation: Jack Welch's Leadership. Rep. no. 9-399-150. Harvard Business School, 2005. Print.