

Ge organizational structure analysis



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1. Introduction

This essay identifies GE on the life-cycle chart during the transition from Jack Welch to Jeff Immelt as CEO. It also addresses the changes he made to its organizational structures, thereby achieving his goals. Furthermore, highlighting the risks and trade-offs accompanied with those changes. Finally, this essay also gives recommendations to the transportation department of GE for the new Hybrid project.

2. Life-cycle

Source: Adapted from Robert E. Quinn and Kim Cameron, ' Organizational lifecycle and Shifting Criteria of effectiveness: Some Preliminary Evidence,' Management Science 29 (1983), 33-51: and Larry E. Greiner, ' Evolution and Revolution as Organizations Grow, ' Harvard Business Review 50 (July-August 1972), 37-46 (Cited in Organizational Theory and Design Daft et al, 2010)

In terms of structure, GE was focused on having close relationship with all members of staff, with small company type thinking where everybody was on first name calling basis. In a speech by Jack Welch in his final management meeting he stressed the following, " Fight like hell to keep the small company spirit, involve everyone, reward broadly celebrate! Celebrate! Celebrate! Hate bureaucracy, hate it every day and don't be afraid to use the word hate, laugh at bureaucrats and get rid of Layers make fun of layers, joke about layers. They slow, they insulate, and they are what cheap people do in lieu of pay raises for people". (Jack Welch, 2000)

As for products and services, Jack Welch shifted GE business from purely manufacturing to financial services through numerous acquisitions. A list of

GE products include Aviation, lighting, electric distribution, media and entertainment, energy, oil and gas, finance- consumer, finance- business, rail, water, healthcare.

Reward and control systems in GE where extensive, tailored to product and department. The reward system was greatly differentiated by Jack Welch and he did so mainly based on performance and those who failed where fired from the company.

Jack Welch differentiated employees by implementing pay for performance matrices applied to all GE staff where he grade staff from outstanding to unacceptable and bonuses were based on these ratings. Any who fell below par were eliminated from the company. (Jim Pinto, 2007)

The main focus and goal of the company is to maintain their reputation as well as complete organization. The stress on reputation was also paramount in GE a quote from Jack Welch the retiring GEO attests to that fact. "...Just someone doing something stupid from a legal point and bringing tarnish to the company and destroying themselves and their families in the process" (Jack Welch, 2000).

Top management style means team approach, attack bureaucracy. As earlier quoted we see the emphasis on attack of bureaucracy and the team approach encouraged by the then CEO Jack Welch.

Organization reached stage maturity and may encounter periods of temporary decline. Figure 2 (Taken from investorguide. com) acts as evidence showing the company stocks at a decline from 2001 when Jeff

Immelt took over as CEO from Jack Welch. This was as a result of external factors such as the post internet bubble stock market drop and the downturn in the economy which resulted in the drop of confidence of investors in big organizations especially after the post Enron scam.

Figure 2 GE Stock Chart

(Taken from investorguide.com)

Need for revitalization-The decline of stocks and profits in GE indicated a need for revitalization in the company. The Company shares was trading at \$23 compared to its \$60 in August 2000 , and the modest increase in profits on revenues by 7% compared to the double digits delivered by the former CEO. There was a need therefore to improve company performance and this could not be accomplished by replicating the same strategy of his predecessor. He therefore embarked on a change in strategy focusing on organic growth through technological leadership, commercial excellence and global expansion.

3. Immelt's goals

It is apparent that in the year 2000 after Jack Welch retired from GE, Jeff Immelt who was elected by the board members of the company became the new CEO. However, at the same time, the global economy was experiencing a significant downturn, which exerted some detrimental influences on GE. As a result, Immelt did not have an easy situation and besides, he tried to combat the economic problems. Most importantly, he could not copy the business strategy used by Jack Welch his predecessor since the economic environment had changed significantly in the last several years.

Generally speaking, Immelt wanted to make a big revolution to the company and besides, Brady (2005) found that Immelt had decided to make GE become an innovative and creative company rather than a process-oriented one. Besides, GE had to shift its attention from cost-cutting to develop new products, improve services and open up new markets. In order to achieve this goal, GE should make a host of changes, particularly in four areas. Specifically, in terms of the organic growth, the most famous action was the imagination breakthrough (IB) which can generate 100million dollars in new business during some years and took GE into a new line of business or markets (Prokesch, 2008). After that time, GE developed some famous and successful IBs, such as EVO and GML. Furthermore, Immelt wanted the company to be innovative and creative. Consequently, in 2002, GE began to engaging in new fields, such as oil and gas technology, water technology as well as paying much attention to the research and development. The research group found that some certain areas with the potentials to bring huge profits to GE should be taken into consideration by GE, such as biotechnology.

Despite the organic growth, Immelt also hoped GE enter into a stable growth trajectory. As a result, the concept of “ Ecomagination” materialized, since it is a huge business opportunity and most importantly, it is an immerging trend in the economy which can bring GE sustainable and long-term growth rather than only a few months. Immelt announced in 2005 that GE had prepared to focus its future to the eco-friendly technology, such as clean water and clean energy. Makower (2005) also found that almost every year, GE dedicates a vast amount of money in cleaner technologies, thereby

developing some eco-friendly products. Moreover, GE tried its best to reduce the greenhouse emission by 1% as well as make some alternative energy, such as hybrid-dual-fuel, which can bring huge profits to GE and improve its reputation in the global market.

The third area which Immelt wanted to focus on is the development of infrastructures. After setting his goal, Immelt invested a large amount of money in upgrading the R&D facilities and set up some research centers in other countries, including Shanghai and Munich. Furthermore, GE expanded its emerging market in China, India, and Africa.

GE also gave priority to the marketing. Brady (2005) made a definition to the marketing; a company's marketing group should pay attention to understanding the market needs and meet customers' demands rather than just create slogans for the products.

4. Changes in Organizational Structure

GE underwent a change in the basic structure of the organization in several aspects. Specifically, The Global Research Center agenda became more long term oriented rather than focus on short-term product development as it had in the past; the GRC's agenda became more oriented towards the long-term. (Bartlett et al, 2008). Besides, the organization had a more commercially oriented perspective to its decisions; Immelt wanted the organization to turn its attention to the marketplace and to bring in a more commercially oriented perspective to its decisions. (Bartlett et al, 2008).

Furthermore, Increase in Human Resources by the reinstatement of chief marketing officer role formally abolished. In one of Immelt's first

appointment, Beth Comstock was named GE's chief marketing officer, a position Welch had abolished decades earlier. (Bartlett et al, 2008). Moreover, The external recruitment of human resources a formally uncommon practice in GE. Because of the shortage of internal talent, many of these marketing leaders had to be recruited from the outside, an uncommon practice at GE. (Bartlett et al, 2008). The formation of commercial council and experienced commercial leadership program are to monitor and drive change and the slowdown of job rotations, so that the managers can develop more in depth market and technological knowledge. Immelt also encouraged an innovative nature in his employees and to take more risks and possibly fail, which was contrary to the immaculate completion of objectives formerly encouraged in Jack Welch's era.

5. Trade-offs

In order to implement the shift in strategic focus from the interior to marketing, Immelt realigned the human resource by recruiting marketing leaders from outside to compensate the lack of internal talent and forming the Experienced Commercial Leadership Program to integrate newcomers into GE's culture and system. In terms of global expansion, which is also one of the Immelt's strategies, Comte increased the Transportation marketing staff by 18 people. These implementations led to extra investment in terms of increasing personnel and training newcomers.

On the other hand, instead of operating efficiency and cost-cutting, Immelt focused on technology leadership by upgrading R&D facility, upping R&D budget 14% and authorizing two Global Research Centers in Shanghai and

Munich. The change caused higher costs and more resources required in terms of R&D.

Rather than focusing on short-term R&D as it had before, GE concentrated mainly on the long term. Furthermore, as one of Immelt's management styles, spending longer on developing products is prior to acquiring companies for technology, compared to previously consistent growth primarily through acquisitions. Therefore, the result required longer time to reflect on profit.

Immelt slowed the job rotation in order to develop “ growth leaders” with deeper understanding in expertise such as market and technological knowledge. Moreover, the evaluation and reward processes which had focused on flawless and short-term execution were adjusted in order to encourage employees to take risks. As a result, although improving professional skills and innovation, these changes led to lower operating efficiency.

6. Risks

In terms of earning per share, the average growth per annum from 1981 to 2000 as Welch was the CEO remained 23%, while only 7% from 2001 to 2009 when Immelt changed the strategic focus. Furthermore, focusing on long-term, more modernized and more limited R&D projects led to larger uncertainty of the business, which might be risky due to its innovation and unknown market acceptability. Therefore, although these changes represent a new era of GE, shareholders might lose their faith of the company.

On the other hand, one of the GE's major divisions is GE capital services. From late 1980s, GE Capital Services increased largely and by 2000 it accounted for almost half of the total sales of GE Consolidated. However, Immelt put more emphasis back on GE Industrial, and the operating profit fell overwhelmingly from US\$6, 593 in 2004 to US\$2344 in 2009. (GE Annual Report, 2009) There was a symbiotic relation between GE Industrial and GE Capital Service. As Jack Welch was CEO, the main strategy of growing industrial division was acquisition because remaining profit of GE industrial enabled GE to be ranked as industrial company so that GE Capital Services could borrow at cheap rates and lend at higher rates, the fact how GECS increased its revenue. Immelt, nevertheless, abandoned the strategy of acquisition and upgraded the R&D budget in order to enhance GE industrial because he wanted to make GE as a research-based and innovative enterprise. This move led to a collapse of the balance between GE Industrial and GECS and might cause potential risk in GE because GECS accounted for more than 40% sales revenue of total. (Froud, 2005)

7. Transportation recommendation

Besides the EVO, GE also prepared to focus its attention to the hybrid project since it is the perfect candidate to fit into the “ Ecomagination” project which GE just announced and committed to save the environment. Hybrid was a project which aimed to reduce the emission and captures the energy generated during braking and stores it with the batteries. Consequently, by using the hybrid, it could reduce fuel consumption by almost 15% compared with other locomotives, which was helpful to the customers, environment and GE. However, the costs for developing the batteries and hybrid

technology were extremely high and GE's limited finances and engineering resources required GE to weigh the opportunity cost of embarking on this project. These factors required the transportation division of GE to come up with three possible scenarios; The first option would be to explain that while the project as currently defined appeared to have very limited to short- to medium-term commercial viability, the business would commit to it as an IB and continue to explore alternative ways to make it successful;

The second approach would be to acknowledge the hybrid's long-term potential, but suggest that it be placed on hold as in IB, perhaps by transferring primary responsibility to the Global Research Center to work on the battery technology in collaboration with various GE businesses – including Transportation-that had an interest in its development;

The final alternative would be to recommend that the company acknowledge the fact that after three years of hard work on Hybrid, neither the technology development nor the market acceptance of the concept had indicated that it could be a viable commercial proposition in the foreseeable future, and therefore that it be dropped as an IB.

After considering all the elements, GE should opt for the second option by the following reasons. First, to hold hybrid as an IB and meanwhile to develop the present technology may help GE to not only remain the leading position among the present market but move forward to the future by researching in future trend. Furthermore, it would be relatively less risky than the first option due to the separation of the investment. The increased emphasis on gas emissions ensure that the hybrid engine will definitely

become a necessity for the rail transport industry, this is also in line with Immelt's goals for GE to be the 1st in innovative technology and embarking on trends that cannot be easily imitated.

The battery technology when completed can be used for alternative businesses in GE there by helping the company to be green and promote the environment. Due to the environmental importance of the project GE can solicit help from the government to aid with the cost for the development of this new technology as highlighted by Bartlett et al (2008), Compte explained that his marketing organization had located some potential government funding for hybrid project.

8. Conclusion

In conclusion GE is a company with strong strength of organizational cultures and uses task type of organizational culture. It was identified in the case study to be at the elaboration stage of the lifecycle chart at the time Immelt was made the new CEO of the company. The company was at the revival stage of organizational development, he accomplished this by changing the company from a result oriented closed system to a process oriented open system.

Moreover it is an organic organization which uses learning to improve its organizational and managerial capabilities. As a result it has diversified quality production and can be prospective in its environment, strategies and technology.

Word Count: 2492