General electric strategic position – 1981

Business, Company

General Electric (“ GE”), similar to many major corporations in the 1980s and 1990s, underwent a restructuring phase in line with the McKinsey Restructuring Pentagon. Through this restructuring, General Electric implemented a portfolio-planning model to manage the ever-increasing demands of a company involved in over 190 businesses. Ultimately, this model allowed GE to formally? GE set loftygoalsof increasing earnings per share 25% faster than the growth of GNP. In order to achieve this the company needed to address productivity and possible realms of expansion, but the systems in place often led to a lack of focus.

Reginald Jones attempted to create value and compete in the market by implementing strategic planning and then integrated strategic planning to address productivity. Through GE’s engagement of McKinsey & Co. they devised a structure of Strategic Business Units along with Portfolio Planning. The development of strategic business units allowed the company to stay competitive in their respective industries by acting somewhat autonomously from GE Corporate. In the restructured GE, the SBUs were responsible for identifying crossovers to expand their competitive position by utilizing the entire GE network.

The Portfolio Planning Model allowed GE to allocate resources to each SBU based on Industry Attractiveness and Business Unit Strength. The allocation of resources focused development on specific projects instead of “ sprinklingmoneyacross a variety of businesses. ” This matrix later would be called the GE matrix, which allowed GE Corporate to quickly analyze a business plan by highlighting the potential industry growth (using a Five

Forces-style analysis) and looking at the relative knowledge within GE to capitalize on the industries market share.

After the allocation of resources, GE identified business unit strategy. This strategic planning was ahead of its time in terms of management theory. Strategic Planners were required at each business unit to assess the strategic positioning of opportunities (including potential divestment) and to identify portfolio balance. This portfolio assessment identified the overall business unit balance in terms of cash-flow generation and growth prospects. After these metrics were defined, performance targets were set based on the business strategy and perceived competitive position.

When combined with the BCG Matrix, GE was capable of making allocation decisions readily, addressing the productivity issue while maintaining its competitive advantage in industries viewed with positive growth potential. One can say the creation of value at GE in the 1981 depended on its use of metrics to focus on specific industries and growth opportunities. This created value by allocating resources more effectively in order to predict market trends and anticipate demand within markets before customers were able to clearly identify what was needed.

In addition, this created value in terms of the shareholder value maximization model as GE innovated in order to outpace growth in GNP. Returning to the McKinsey Restructuring Program, it stands that GE created additional value and became an even greater competitive force across their broad industry footprint by capitalizing on the linkages between their SBUs. Part of Reginald Jones’ theory on implementing Sector level managers

exemplified this value creation through corporate linkages. In order to stay away from a Holding Company status, GE Corporate realized it needed to add-value from the top-down.

The end results was a structure whereby SBUs developed new business opportunities by ‘ extending into contiguous product-markets;’ Sectors ‘ developed new SBUs by diversifying within their macroindustry scopes;’ and Corporate developed ‘ new sectors by diversifying into unserved macroindustries. ’ This renewed focus allowed GE to add value across its hierarchy, competing quicker and more efficiently than competitors while leveraging the full breadth of resources available to a truly diversified company.

Additionally, due to GE’s restructure hierarchy; corporate was able to focus on what Jones called “ arenas. ” These arenas extended into nontraditional management, integrating new developments in techniques, motivation, and measurement, but were designed to create a vision for the future, which then linked back to the portfolio planning model in order to more appropriately allocate resources. As a result, GE decided to focus on the following arenas – Energy, Communications, Energy Applications-productivity, Materials and Resources, Transportation & Propulsion, and Pervasive Services.

These arenas drew direct linkages between organizations within GE, further leveraging the company’s resources to compete more efficiently while creating shareholder value. Additionally, GE said that planning helps a company focus, but implementation and execution is the key to success. To

this end, they developed their people internally at a faster rate then competitors, often shifting managers to completely new organizations in order to provide a fresh perspective on innovation and market potential.

Planning became a way of life, but implementation and execution were the breath of the company, even as they faced a dynamic and continually changing organizational structure. General Electric in 1981 created value and became more competitive due to their focus. GE executives realized the shifting dynamics within a diversified company and provided a formal framework to identify opportunities and to put money to work in those arenas. Additionally, their ability to capture leverage from linkages, both with products and human resources, helped the company remain competitive and quicker then each industry player within their respective units.

The overall restructuring and portfolio planning provided a framework for their growth and value creation, which Jack Welch capitalized on after the departure of Reggie Jones. We believe that the strategic planning approach implemented by Reginald Jones, CEO of GE was revolutionary and necessary for the time but the methodology remained unchanged and ineffective as the company grew through the 1970s. Jones was a person who had a clear vision for corporate growth and effective performance during recessionary times in the United States.

He believed in creating a change, recognizing the problems the company was facing and implementing strategies to reshape the decision-making process in the corporation. The focus of the corporation was to impose the creation of business strategic units in order to gain a broader view on

corporate management strategies. The main goal was to implement the company's vision across all business units across various industries. GE introduced a strategic planning system where management was expected to take strategic decisions and be involved pro-actively in the decision-making process.

The corporate approach was to introduce clarity of the job functions in order to avoid ambiguity and miscommunication between the business units. Management was encouraged to strengthen their relationships with the team to integratecommunicationbetween the departments. Through the strategic planning system, the company recognized certain sectors that were less profitable than others and decided to prune the business units that did not grow rapidly or remain static. GE focused on further developing growing business units in new sectors by diversifying in unexplored industries.

Overall, the corporation showed an average growth of 16% annually on their income statement for the decade between 1970 and 1980. GE delivered 26 consecutive quarters of improved earnings through two recessions; however, it faced some structural problems. The internal audit showed that strategic planning was slow and inefficient. Integration and cooperation between the business units was non-existent, which deprived innovation and opportunism within the corporation. The decentralized management led to the proliferation of 150 strategic business units.

Additionally, financial analysis and control was rigid and did not promote cooperation between the business units. The strategic planning processes were heavily infringed by paperwork creating bureaucracy. In order to

control the information, new management layers were created which resulted in expanding the staff of the organization. The paper-driven processes, in combination with the large staff at the business unit level, increased the costs and reduced the efficiency of personnel, reflecting the overall performance of the corporation.

The large amount of paper reports slowed the decision-making process by the corporate management team that was inefficient to take action in search of further market growth. Due to these issues, the financial performance of GE was moderate and it matched the GNP index but did not outperform it. The corporate management focused on increasing growth while fighting inflation when the company was growing in size in both personnel and business units. We propose a different approach to confront the issues that GE was facing in their initial proposition for corporate strategic management.

The company should focus on reducing the bureaucracy and improving the efficiency of the strategy decision-making process. This may be achieved by implementing regular face-to-face meetings with the corporate strategy management unit. GE could introduce more flexible financial controls to promote innovation and intrapreneurship while providing more integration across the business-level managers. A major problem to resolve was the excess cost of duplication and uncoordinated actions.

GE's focus should be on pruning less efficient business units that are not profitable and strengthening the SBUs that will provide the highest ROI. As mentioned above, the company was increasing its labor size while the SBUs remained inefficient. There are still some departments that are not as

profitable as others but remained in operation. GE should concentrate in its comparative advantage in the industry to retrieve new rivals. Therefore, looking for new opportunities, along with undiscovered sectors, will provide the corporation with a greater competitive advantage in those industries.