Corporate strategy analysis: general electric co. essay sample

Introduction

The General Electric Company (GE) is widely regarded as one of the world's most successful corporations of the 20th century. This paper aims to critically analyse the corporate strategy of GE during the period from 1981 to present under the leadership of two very different but equally influential CEOs—Jack Welch and Jeff Immelt. The essay is organised in four sections. The first section describes GE's corporate strategy from 1981 to 2001 with Jack Welch as CEO, followed immediately by a critical analysis of Welch's strategic approach in the second section. The third section then describes GE's corporate strategy from 2001 to present with Jeff Immelt as CEO, followed again by a critical analysis of Immelt's strategic approach in section four.

1. The Jack Welch period (1981–2001)

When Jack Welch took up his post as GE's CEO in 1981 he embarked on a radical transformation of GE's strategy, ushering in a new era of performance management and internal efficiency. Welch's profit guidance aimed for earnings growth of 1. 5 times to double of the GDP growth rate and his management philosophy found its articulation in GE's slogan—Speed, Simplicity, Self-Confidence (GE 1995). These values would reflect not only in the organisation's systems and processes but also in GE's products and services through their simple and highly functional designs. Welch's corporate strategy was all about performance and efficiency. Throughout his 20 years as CEO, he relentlessly drove his subordinates to the limits of their abilities, encouraging employees at all levels to embrace ambitious targets and continuously improve their performance.

Welch was renowned for his use of constructive conflict as a means of eliciting commitments from line managers and making difficult decisions. As part of his efforts, Welch led a sustained attack on bureaucratic processes and in its place he sought to instil a culture of openness, confidence, leadership and creative thinking at every level of the organisation. Through his organisational restructure Welch ruthlessly eliminated several layers of management and shed a large number of jobs, which earned him the nickname ‘ Neutron Jack’ referring to the deadly neutron bomb which kills people but leaves buildings standing (Economist. com 2009). The biggest staff cuts were made in administrative functions and business decision making was delegated to line operation managers.

Welch implemented a major restructure of the GE business portfolio, focusing on a limited number of sectors with promising performance and growth potential, whilst retaining a fairly diversified portfolio of businesses. This was achieved through the sale of GE’s less profitable businesses and retention or acquisition of businesses identified as number one or number two in their industry (Grant 2008, p. 304). The strategy led to several huge divestments and the shifting of emphasis towards GE’s technology-based businesses and service businesses (Bock 2001). A series of acquisitions that followed led to the phenomenal growth of GE Capital, which became one of the world’s leading diversified financial services companies (Grant 2008, p. 304). Figure 1 shows GE’s organisational structure and business portfolio in 2001.

The annual budget was a central component of GE’s existing strategic planning system. Welch moved strategic planning and other administrative functions into the business units (Bock 2001). The budget locked line managers into explicit performance and cost targets, regardless of changes in market conditions (Grant 2008, p. 307). Welch retained the annual cycle but introduced two changes to the system. First, initial financial targets were prepared by the controller’s office rather than individual line managers. And second, the budgets were allowed to be revised as the competitive conditions changes (Grant 2008, p. 307). The complex document-centric complex budgeting process was replaced with a much faster and less formal personal process based around a simple standardised five-page playbook in which line managers summarised the key strategic issues their businesses faced (Grant 2008, p. 306).

A central part of Welch’s corporate strategy was nurturing talent and leadership through the delegation of responsibility and deployment of powerful incentives. He designed a motivation scheme which permeated deep into ranks of middle management rewarding superior performance with generous bonuses and recognition of talent. Stock options on the company became were used extensively to link financial rewards to corporate performance, with nearly 22, 000 stock options awarded to GE employees by the end of 1995, compared to only 400 in the early 1980’s (Grant 2008, p. 308).

In the 2000 annual report, in the Chairman’s letter, Welch declared that the organisation’s true core competency rests in the ‘ global recruiting and nurturing of the world’s best people and the cultivation in them of an insatiable desire to learn, to stretch, and to do things better’ (GE 2000). GE’s performance evaluation system was famous for its ‘ rigour and ruthlessness’

(Grant 2008, p. 308). Each year the top 20 per cent were recognised and rewarded for their contributions while the bottom 10 per cent performers would face losing their jobs. The middle 70 per cent would thus be motivated and encouraged to move into the top 20 per cent or risk being left in the bottom 10 per cent.

In addition to continuously stretching performance targets through strategic planning, financial control, and human resource management, Welch introduced periodic corporate initiatives which became known as GE’s Operating System. Roughly every two years Welch would implement a new initiative focused on improving a particular aspect of company-wide performance. The major initiatives include: Work-Out, Boundaryless Organisation, Globalisation, and Six Sigma. Work-Out was a forum where a cross section of employees from each business was asked to talk openly about the management practices in their part of the business without fear of retribution. At the end of each session the group’s manager returned to hear the results and recommendations and make a decision as to what further action may be needed. Boundaryless Organisation.

Welch believed that the key to translating diversity into a competitive advantage was the ‘ frictionless transfer of best practices and learning within the organisation, and the close partnership relations with its suppliers’ (Grant 2008, p. 310). The Boundaryless Organisation initiative aimed to blur GE’s internal and external boundaries through information sharing, crossbusiness learning and the integration of key suppliers into GE’s end-to-end processes. Globalisation was aimed at exploiting international economies of scale across GE’s business portfolio and taking advantage of global opportunities as they arise. During the 1997 Asian financial crisis GE invested acquired distressed assets in the region in order to leverage off an eventual upturn. This approach had paid off for GE in the past during the US and European recessions in the 1980's and the Mexican crisis in the mid 1990's, allowing the company to accumulate quality assets at discount prices. Six Sigma.

The methodology, developed by Motorola, was implemented by GE on an unprecedented scale throughout the whole organisation. It is a comprehensive quantitative system for defining, measuring, analysing, improving and controlling every aspect of corporate processes. Among the claimed benefits of the system is its focus on achieving measurable financial results from any project to which it is applied. GE's target was reducing defects to 3. 4 per million (Bock 2001) Digitization. This initiative was introduced in 1999 with the launch of Welch's destroy-your-business. com program where line managers were encouraged to visualise how their business might be ' crushed by the dotcom juggernaut' (Grant 2008, p. 310). Digitization allowed further improvements in internal process and the discovery of profitable new market
opportunities. During GE's twenty years with Welch at the helm, GE shareholders consistently benefited from the legendary leadership of one of 20th century's most successful CEOs. Figure 2 shows that in the last three years alone of his appointment as CEO, at the height of Welch's success, GE share price more than doubled despite the dotcom crash of 2000.

2. Critical analysis of GE's strategy under CEO Jack Welch (1981–2001)

Corporate level strategy is about creating value by coordinating resources across business units and finding new ways to develop and capitalise on the organisation’s capabilities over a long term horizon. Welch demonstrated his ability to articulate and transmit his values and vision with remarkable fervour and clarity throughout the organisation. However, despite its success, this resource-based view was perhaps too inward looking, the reward system too focused on short term individual performance with not much attention given to creating value for customers. Welch focused on developing GE’s cost advantage. As a result, GE may have missed valuable opportunities to develop new markets or expand its market share through product differentiation during those early years of Welch’s leadership as managers and employees focused on internal efficiency and year-to-year performance.

Welch’s obsession with performance and speed translated to impressive financial results, with net earnings increasing seven-fold over the twenty years while the number of employees remained more or less constant (GE Annual Reports). This implies enormous increases in efficiency and staff performance. However, greater speed and simplicity may have come at the cost of making compromises in other areas, such as customer service, quality and safety. It would appear that the company-wide deployment of Six Sigma was a successful attempt to address the quality and process issues that may have resulted from Welch’s unrelenting push for speed and short-term results. Core competencies provide access to new markets, add value to the company’s products and are difficult to duplicate by competitors (Prahalad and Hamel 1990) recognised that GE’s best asset was its human capital. An important strategic step of empowering line management and employees was the delegation of strategic planning and administrative functions to business units. However, the continuous pressure to perform may have created new problems for the organisation.

As noted above, some employees may have been forced to cut corners and take risks perhaps ‘ contributing to some of GE’s defence contracting scandals or the Kidder, Peabody & Co. bond-trading scheme of the early 1990s that generated bogus profits’ (Byrne 1998). Further, GE employees were incentivised to compete with their colleagues under the threat of slipping to the bottom 10 per cent and the prospect of losing their job. This competitive work environment may have prevented, rather than facilitated, internal learning and sharing of knowledge capital which Welch was so eager to promote. Corporate strategy can assist in the development of a firm’s competitive advantages. Some of GE’s initiatives went a long way to developing GE’s competitive advantage and mitigating some of the more negative consequences of Welch’s ‘ carrot-and-stick’ management style.

For example, the Digitisation initiative led to the widespread discovery of new opportunities not only in the improvement of internal knowledge management but also in customer service. Further, in combination with the breaking down of GE’s hierarchy, the Boundaryless Organisation initiative facilitated the flow of information and assisted learning across the organisation by providing a safe forum for the open expression of opinion. This would have helped staff overcome their competitive motives and assisted knowledge transfer. The blurring of boundaries had another important strategic purpose, namely, the unlocking of synergies from GE’s’ diversified portfolio of businesses. At a time when the conglomerate model was hugely unpopular in the investment community, Welch retained GE’s diversification strategy and clearly demonstrated its benefits, achieving substantial economies of scope by sharing knowledge, resources and capabilities common to different businesses.

Prahalad and Hamel (1990) argue that a corporation should be structured according to its core competencies rather than a portfolio of business units. Welch’s Boundaryless Organisation was a bridge between GE’s business units that helped the organisation to capture some of the benefits of its diverse knowledge base. One of the most significant changes to GE’s portfolio structure was the emergence of GE Capital as one of the world’s most horizontally integrated diversified financial services companies. Unlike its other businesses, GE Capital occupied virtually all segments of the financial services market—from consumer finance through specialty insurance to equipment management (Grant 2008, p. 306). By 2001, GE capital contributed nearly a half of GE’s total revenues and was able to leverage off its industrial businesses to operate on a narrow capital base while retaining in triple-A rating (Grant 2008, pp. 313– 315). This goes to demonstrate the success of GE in unlocking synergies from a diverse business portfolio beyond that which could be achieved by a typical diversified conglomerate.

The Globalisation initiative allowed the organisation to exploit global economies of scale and helped GE capitalise on learning opportunities across geographical locations. To the extent that knowledge from one GE business or location could be readily applied to another there was always a potential for synergy gains from the organisation’s global diversification. An example where this potential translated into tangible benefits was in the transfer and diffusion of a new innovative method for compressing product cycle times from a New Zealand appliance company throughout GE’s businesses (Grant 2008, pp. 310-311).

With the deployment of Six Sigma Welch clearly demonstrated his awareness of the importance of creating value for customers and its strategic role for GE. He was quoted as saying, ‘ We want to make our quality so special, so valuable to our customers, so important to their success, that our products become their only real value choice’ (Bock, W. 2001). This reflects Welch’s desire to lock in GE’s customers into perpetual dependence, making it more difficult for them to switch. Arguably, Welch’s continuous push for adaptation, speed and excellence—strengths which are the hardest for the competition to imitate—became GE’s most valuable core competencies on which the company was able to build and sustain its competitive advantage.

3. The Jeff Immelt period (2001-present)

Jeff Immelt’s management style is sharply different from that of his predecessor. His strength is in motivating others by encouraging them and relating with them at their level, rather than intimidating them as Jack Welch would have. Despite both men being equally effective, Immelt’s people-friendly regular-guy leadership style has created a very different atmosphere at GE and drew praise from the ranks of his subordinates. In 2001, shortly after Immelt took up his position as GE’s new CEO, a series of events fundamentally changed the corporate landscape. Immelt’s immediate challenge was to manage the impact of the fallout of the September 11 attacks and a subsequent series of high profile corporate scandals (i. e. Enron, WorldCom). These events created significant uncertainty and led to a crisis of confidence among investors and fuelled resentment in the community at large.

In the face of a sliding share price, Immelt recognised that managing GE’s exposure to the business cycle would be critical to the organisation’s long term stability (Grant 2008, pp. 317-318). He sought to reassure GE shareholders that the job of the CEO was not to manage the share price but to manage the company for long-term profit growth. To maintain the trust of the community and GE shareholders, Immelt implemented a number of measures to increase transparency and actively manage GE’s public relationships with all relevant stakeholders—including customers, suppliers, government and the community at large (Grant 2008, p. 318). Figure 3 shows GE’s share price in US dollars the three years to August 2003. Figure 3: GE’s share price (US$, three years to mid-2003)

Like his predecessor, Immelt was eager to make a clear distinction between GE’s unique corporate model and the widely unpopular diversified conglomerate model. In his communication he repeatedly emphasised the role of GE’s common systems, resources, processes, initiatives and culture in synthesising the organisation’s various businesses and unlocking genuine economic value. With most of the easy efficiency gains already realised through Welch’s extensive internal reforms, Immelt reasoned that future profit opportunities would most likely come from organic growth. In 2002, Immelt committed GE to an organic growth rate of 8 per cent per year (Charan 2006). He identified a number of emerging global trends—the ageing population, the conflicting forces of growing energy demand and concerns over global warming, the advent of biosciences and nanotechnology, and new commercial opportunities in the emerging markets (Grant 2008, p. 318–319).

Immelt aimed to create value for customers by leveraging GE's core competencies—particularly in advanced technology and related services—delivering superior, highly customised products and services to high-growth markets. In his 2003 letter to stakeholders, Immelt articulated GE's three strategic imperatives as: (1) sustaining its strong business model, (2) strengthening the business portfolio, and (3) driving its growth initiatives (GE 2003). To implement this strategy, GE's business portfolio was restructured through a series of acquisitions and divestments around five key growth initiatives: Technical Leadership, Services, Customer Focus, Growth Platforms, and Globalisation (GE 2003). Figure 4 shows GE's organisational structure and business portfolio in 2007. Figure 4: GE's organisational structure and business portfolio in 2007

At the heart of Immelt's growth strategy GE's was the development of new Growth Platforms which could be either extensions of the existing businesses or entire new commercial areas, nested in GE's growth engine businesses (GE 2003). Identifying new Growth Platforms was established as a central strategic challenge for all GE's businesses and involved analysing the market to identify high-growth segments that offered potential for attractive returns (Grant 2008, p. 322). Once a new Growth Platform was identified, GE would build a leading position in those sectors through small strategic acquisitions and the deployment of its financial, technical and managerial resources (Grant 2008, p. 322). An important step towards developing GE's growth potential has been the launch of the Ecomagination initiative in response to the growing demand for cleaner, more energy efficient technologies across a range of industries including health, aviation, rail, and energy (GE Ecomagination Fact Sheet).

In formulating his approach, Immelt had come to view technology as a key driver of GE's future growth and implemented measures to accelerate the diffusion of new technologies throughout the organisation the repositioning of GE in as a technical leader in the marketplace (GE 2007). New technologies were seen as an essential ingredient to successful product innovation and quality improvement. GE expanded its research and development capabilities and supported them adequate financial backing. A key challenge in implementing Immelt's growth strategy was in reconciling GE's focus on performance with harnessing new growth opportunities. To achieve this, Immelt established a process for indentifying promising projects that offered attractive growth potential which were then incubated and protected from the typical budgetary pressures faced by other GE businesses (Grant 2008, p. 325). Another vital part of Immelt's growth strategy has been the implementation of the Customer Focus initiative.

This manifested in the revitalisation of GE's marketing function—most notably through the creation of GE's Commercial Council and the deployment of a whole suite of customer-oriented programs (Grant 2008, pp. 322-323). An important outcome of the customer focus was the organisation's ability to create new value for the customer by bundling products with support services and combining products and services across businesses to deliver highly customised solutions. This enhanced GE's capacity to meet customer-specific needs which went well beyond tweaking product features in different markets.

GE gradually reduced its representation in certain parts of the financial services industry as it continued to reposition in the marketplace around the key themes Immelt had identified as emerging global trends, and by 2007 its operating framework was centred on four main businesses: technology and energy infrastructure, finance, and media (GE 2008). Over the years, Immelt had developed, refined and formalised his growth strategy in a six-part process, shown in Figure 5, emphasising the importance of customer value, innovation, leadership in technology, sales and marketing capabilities, global expansion to emerging markets, and encouraging growth leadership. This process now forms the broad basis of all GE's commercial activities.

4. Critical analysis of GE's strategy under CEO Jeff Immelt (2001-2006) An important step in developing and formulating a new strategy is a general scan of the organisation's internal and external environment. In 2001 Immelt demonstrated his sensitivity to the changing business climate in the face of a sliding share price in the aftermath of the September 11 attacks and the Enron and Worldcom corporate scandals. By signalling his commitment to good corporate governance and greater transparency, including the introduction of more detailed financial disclosure, Immelt was able to manage the immediate external risks and assure shareholders of GE's continuing prospects for long term profitability. He developed and articulated his outward-looking organic growth strategy. Immelt's growth strategy became the new frontier for the development of GE's core competencies and received strong endorsement from fellow managers and external analysts.

Growth strategies can be analysed along the dimensions of products and markets.

Depending on the mix of existing and potential products and markets, four distinct strategies are available. Immelt's organic two growth strategies were product development and market development, executed through a series of divestments and acquisitions in sectors with high growth potential. His strategic focus was on creating differentiation advantage through innovative product-service bundles and enhanced customer focus. GE's acquisitions were clearly linked to its core competencies. Although GE's acquisitions were broadly in line with Immelt's assessment of the emerging global trends, the retention of some of GE's mature low-growth businesses such as appliances and lighting products was clearly inconsistent with the overarching growth strategy. Immelt justified this by pointing to their role as cash generators which would provide a stable base for the support of GE's growth businesses —such as commercial finance, healthcare, energy and infrastructure.

Resources channelled to the development of promising growth projects eventually led to groundbreaking technologies such as GE Transportation's Evolution Hybrid Locomotive project in 2007 or GE Energy's globally most advanced design for a safe nuclear power (GE Ecomagination Fact Sheet, Berzon 2008) In context of the global financial crisis of 2008, GE's repositioning towards technology and industry has played an important role in protecting GE's revenue and earnings base. Having divested $150 billion of its insurance assets earlier in the decade as part of its technology refocus, GE had no exposure to securitised investment vehicles (SIVs) or collateralised debt obligations (CDOs) or credit default swaps (CDS), (GE

2007 and 2008). As a result, the company managed to maintain its triple-A credit rating. However, its exposure to US commercial real estate and UK mortgages inflicted collateral damage on GE’s income and financial position (GE 2008). Overall, GE’s business portfolio was probably well balanced for all stages of the business cycle as evidenced by the resilience of its consolidated earnings.

Immelt’s assessment of emerging global trends and his strategic direction demonstrate his understanding of the external opportunities and threats, and internal strengths and weaknesses. Technical leadership has proved to be not only a source of GE’s competitive advantage but it is also an important barrier to entry. For example, GE is the only USbased company with all the necessary capabilities to build a nuclear power plant. It has also managed to build in significant switching costs through installed proprietary technology. In healthcare, through its R&D capabilities it GE has forged a leadership position in advanced health sciences such as molecular imaging, nuclear medicine and 3D visualization and analysis solutions (GE Healthcare). It also has one of the most comprehensive portfolios of Smart Grid solutions available in the market, from energy distribution to financing and supporting utilities (GE Ecomagination Fact Sheet). In 2007, GE had $150 billion of backlog orders for its products and services (GE 2007) Finally, by bundling products and services from different parts of the portfolio to deliver truly innovative customised solutions Immelt proved GE’s potential to create value from its diversity.

In 2003, GE launched its imagination at work brand campaign (GE 2007). GE’s brand equity increased by $10 billion in the five years to 2007 and in

2008, GE was named fourth most valuable brand by BusinessWeek (GE 2007 and 2008). Further, Immelt clearly demonstrated his ability to execute his growth strategy and enhance GE's growth potential. Despite the global financial crisis of 2008 which impacted severely on GE's share prices, its financial performance continued to show remarkable resilience through 2008 (GE 2008). In these challenging economic times, the jury is still out on the long term success of Jeff Immelt's growth strategy for GE. And time will be the ultimate judge.

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