

Ge's two decade
transformation : jack
welch's leadership
essay sample



**ASSIGN
BUSTER**

The case examines the transformation of GE under the charismatic leadership of Jack Welch, from the time when GE was a small player to its status of the ' Most Admired Company' and the ' Most Respected Company' by late 1990s. We have done a detailed study of the impact Jack Welch has had as CEO over the past twenty years and reveals a leadership style that is the driving force behind a successful transition from a corporate model that was highly centralized and bureaucratic to one that is dynamic, flexible, and at the same time more profitable. GE progressed magnificently under the reign of " Neutron Jack, even though it was at a cost of letting go numerous employees even at the executive levels! But most shareholders were also starting to get worried about his retirement and the prospects of the company post his retirement. The analysis shows the stages through which GE progressed under Jack Welch and its effects on its employees and the culture of the company as a whole.

Evolution of GE

In 1930 GE had a highly centralized and tightly controlled culture but GE as a company was constantly undergoing change. By 1950 it delegated the power of decision making to the department managers which led to greater decentralization. It also developed its staff and strategic planning system.

Era of Reg Jones

Reg Jones inherited GE when it went through a major reorganization. During that time most of the companies were imitating the SBU based structures. GE also followed SBU based structure as it went in for more decentralization but became a role model for other companies in SBU and strategy

formulation. Jones went for restructuring of the organizational structure and also concentrated on having good relationships with the government.

Jones management philosophy was mainly based on the following principles:

- * Minimize ambiguity: This was important in GE at the time. Jones worked to make sure that everyone's job was clear and that the purpose of every meeting was clear.
- * Do your homework: Jones thought that every senior manager should be able to personally perform " validity tests." He expected executives to " read in depth and breadth."
- * The necessity of strategic planning: Jones wanted everyone to develop a clear-eyed view of business reality. He wanted strategic thinking to be a way of life.
- * Personal relationships: This meant knowing people, both customers and company people as individuals. Knowing people meant listening to them " with both ears." It meant being willing to tell the truth and receive it.
- * Decision making: For Jones this meant a consensus framework and the willingness to make a decision if consensus could not be reached. There are three specific pieces of advice in this area that deserve special mention.
- * Adapting and living with change.

- * Preparing oneself to faced odd situations.

- * Risk taking and learning from mistakes.

- * Put on the company hat: Accept decisions that may not be in the best interest of your unit, if they are in the best interest of the company.

Multilayer in organization

GE faced with problems when it was not able to store and process the massive information generated from the strategic plans. So he created new

organizational layer of “ sectors” in the divisions, SBUs and departments representing the macro business agglomerations such as consumer products, power systems or technical products. This brought about more levels of hierarchy in the organizational structure.

Under Jones' administration, the company's sales more than doubled (\$10 billion to \$22 billion) and earnings grew even faster (\$572 million to \$1.4 billion). A major thrust was into international markets. As Chairman of the President's Export Council, Mr. Jones became an eloquent voice for the expansion of world trade and the restoration of U. S. competitiveness.

Change Drivers:

When analyzing Welch's rationale for the changes made, it is important to identify the benefits of incorporating Porter's five forces model to analyse competition within an industry. Welch based his proposed and implemented changes on proven tactics used by other successful companies to achieve his strategic organizational goals. Realizing that bureaucratic models of organizational structures were prone to promoting sluggishness, Welch opted to depart from this model and implement a more flat organizational structure to assist in meeting his objectives. Although unpopular at the time, Welch's decisions and actions have through time become renowned as revolutionary exposing sheer genius in executing changes within an organization. The main change drivers which caused the implementation of these changes are: * Welch's changes helped GE to successfully achieve its organizational goals. * The entire organizational structure of the GE was changed to remove sluggishness in the organization.

* The bureaucratic model of the organizational structure is completely changed to reduce the ill effects caused by the bureaucratic model. * A flat organizational structure was introduced by Jack Welch to promote more effectiveness in the way people communicate. * Welch took these measures of changing the organizational structure when there was an economic downturn. * This strategy of completely changing the organizational structure was created and implemented when GE is facing a serious problem with the dynamics of the people in the organization. * This change in GE was taken after analyzing the competitors and their abilities to overtake GE. * These changes in the organizational structure were not encouraged by the industry experts at that time but eventually these changes led to the emergence of GE a super power in the industry. Thus changes in the GE helped the company to overtake its competitors and created a revolution in the industry. MANAGEMENT ISSUES

The challenges that Jack Welch faced when took over as GE CEO were: 1. SBU-based structure of the organization under the leadership of Reg Jones. 2. Multilayer structure of the organization with departments, divisions, groups and SBUs topped with organizational layer of sectors. Bureaucratic structure of the organization leading to inefficiency and often delay, costing the company to lose its edge. 3. U. S Economy was in recession and high interest rates and high unemployment rate was prevailing since the depression. 4. Global competition faced by the company was increasing, predominantly in the form of Japanese competitors 5. Diversification of GE into many businesses, (many of these were unprofitable), had made GE lose its focus and core competency. 6. Welch also had to defy or meet the

charismatic aura created by Jones. Jones had been voted " The Best CEO" thrice and was the leading business statesman of U. S.

STRATEGIES FOLLOWED BY GE

EARLY 1980s:

1. #1 or #2: Fix, Sell or Close concept-to disengage i. e standard for each business to become the number 1(best) or number 2 (competitor) in industry. Below the number 2 rank, the business would either be sold off or closed. The selling off of businesses freed capital which was used to enhance the efficiency of other businesses.

2. Three circle concept(1983)-Businesses were categorized as a. Core-reinvesting in productivity and quality

b. High Technology-Investing in R & D to stay on the edge c. Services-add outstanding people and make contiguous acquisitions.

3. Restructuring

GE-s restructuring strategy included downsizing, destaffing and delayering to sustain the staff that actually added value. There was 50% reduction in strategic planning staff to make the organization 'lean and agile and enhance competitiveness. He followed the 70-20-10 rule for the employee layoffs. Welch wanted to break the old culture and to bring about change so he reduced number of hierarchical levels and directly controlled all business.

LATE 1980s:

After the Neutron Jack phase which was a cultural shock for everyone, came the phase where Jack Welch focused on the ' Software initiatives'. These '

Software Initiatives' comprised of ' Work-Out' and ' Best practices'. 1. The <https://assignbuster.com/ges-two-decade-transformation-jack-welchs-leadership-essay-sample/>

Best Practices aimed at creating a new culture with speed, simplicity and self-confidence as its elements and correcting the management practices, learning from other companies to increase productivity 2. Work out: provided employees and their bosses with a forum to discuss problems and ideas. 3. Going Global- The mission was to make businesses global and not company. Evaluations were done on world market position. Expansion was done only after making a strong base at home. 4. Developing leaders: Best training and development resources for personal and professional growth were provided to the employees. This step was taken to make employees loyal and to rebuild the trust lost in 80's due to layoffs. To make G. E the best place to work for which the best people compete to get into. Also, these workshops were used to inculcate a set of values.

IN THE 1990s:

In the 1990s, Welch rolled out some new initiatives for his company:

1. Boundary-less Behavior- This was an initiative to enhance integrated diversity, i. e., an open and friendly environment for exchanging new ideas. It also established a set of standard principles that to be followed by G. E managers all over the world by removing barriers between marketing, sales, engineering, manufacturing, etc for easy flow of work.

2. Six Sigma Quality Initiatives- Six Sigma was implemented to increase productivity, lower costs and improve quality which every manager should follow.

3. Stretch: Achieving the impossible-setting higher 'stretch' goals for business-to achieve much higher targets which look impossible to achieve.
<https://assignbuster.com/ges-two-decade-transformation-jack-welchs-leadership-essay-sample/>

This aimed to invent better methodologies and set new standards in the in the process.

4. Service Business- Expansion into services was made to explore new opportunities and supplement the slowing growth in product domain and to win huge customer base by delivering and adding value to their products.

PRE RETIREMENT STRATEGIES

1. Focus on ' A players' with 4 E-s- This model was to find out and nurture new leaders in the company.

E-s stand for:

Energy: excited by ideas.

Ability to energize others

Edge: ability to make tough calls

Execution: turning vision into implementation

2. E-business- Even before Welch officially left the company, even in the last leg of his reign, he launched ' destryourbusiness. com' for redefining business model and taking advantage of internet for their expansion. Their ideology was based on exploiting ' Change is the opportunity'.

He realized the need for GE to incorporate and embrace the internet into their activities and business process and hence he developed and executed this model in every individual business unit.

Conclusion:

Jack Welch's attitude towards management boils down to a few very simple ideas: breaking down hierarchies, ensuring free information flows throughout

<https://assignbuster.com/ges-two-decade-transformation-jack-welchs-leadership-essay-sample/>

the organization, and encouraging people to talk, listen and be open to new ideas. When he first became a GE vice president at the age of 36, he “ stalked out on the plant floor, or picked up the telephone to deal directly with anyone at any level when a problem came up” and that is the organization Jack Welch has attempted to build in terms of communication. Welch succeeded in transforming a complacent behemoth into an energized company ready to face world competition. By flattening the organization and by removing unnecessary layers of bureaucracy, he liberated employees and empowered them to make decisions and effect their jobs, as well as the company as a whole. At the same time, he relied on stretch goals and the slope of satisfaction (as previously discussed) to further push the company to new levels of achievement. An additional sense of empowerment was relayed through various communication, training and motivation mediums, such as the “ Work-Out”, “ the Pit”, “ the Corporate Executive Council” and other special project teams.

Foremost he underlined his words with accompanying actions and an exemplary attitude, avoiding the well known saying that words by themselves are empty. Through the use of 360- degree review processes, appropriate bonus schemes and structural organizational changes, Welch created and opened communication channels at GE, allowing for unprecedented networking, teamwork, and openness to take place at GE. All of these factors combined to form a motivating force for the employees of GE. Welch before leaving made an empire out of relatively a tarnished scrap, and it would take a real tough crack to actually break down what he has built up for GE over the 20 odd years. But that does not allow them to be

complacent and relax. Welch always renewed and came up with innovative and new strategies that kept GE going and they need to mould their future leaders to carry out this legacy if they want GE to maintain its foothold in the market. Irrespective of its future, GE through Jack Welch has given a lot of food for thought for generations of existing and upcoming companies who merely by following the same could achieve greatness, but all rests on how well these companies come through in their execution.